2007 - 2008
BUDGET ADDRESS

Government of the Northwest Territories

Northwest Territories

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2007 - 2008
Budget Address
NORTHWEST TERRITORIES

The Honourable Floyd K. Roland
Minister of Finance

Fifth Session
of the
Fifteenth Legislative Assembly
of the
Northwest Territories

February 8, 2007

Introduction

Mr. Speaker, it is my honour and privilege today to present the 2007-08 Budget for the Government of the Northwest Territories. I would like to take this opportunity to thank all Members of the Legislative Assembly who worked individually and collectively through the Standing Committee process to contribute to the formation of this budget.

This is the last budget of the 15th Assembly. And that makes it an ideal time to look back briefly at what we have collectively accomplished over the past three years. But perhaps even more important, it is time to look ahead ... with optimism, with confidence and with a keen understanding that the next few years will be a critical turning point in our history.

As a Member of this Assembly and Minister of Finance, let me begin by saying I'm proud of what this Assembly has achieved. We've put sound fiscal policies in place, invested wisely in infrastructure, and taken important steps to improve health care services and make sure our young people get the education they need. We've worked hard to build our economy and support communities, families and individuals all across the territory.

Our economy has been growing at a faster pace than the rest of Canada. More and better jobs are translating into higher incomes for people in the Northwest Territories. The important decisions we have made will help build a better future for our residents. They will allow us to move forward in achieving our vision of "self-reliant individuals and families sharing the rewards and responsibilities of healthy communities and a prosperous and unified Northwest Territories."

At the same time, make no mistake. The challenges ahead are substantial. And the blunt reality is that our territory cannot address those challenges alone. Nor can we achieve the lasting benefits new economic opportunities could bring, unless and until we are able to sort out longstanding issues with the federal government.

Just this summer, our hopes were raised when Prime Minister Harper visited Yellowknife and echoed many of the sentiments we've been expressing for years. He called for an end to the paternalistic policies of the past. He vowed to champion our cause in Ottawa and across Canada. He acknowledged that, in the past, Ottawa has done as much to frustrate northern development as to facilitate it. And he noted that when development

occurred, Ottawa was first in line to scoop up most of the revenues. He committed to a new deal on resource revenue sharing as part of negotiations on Territorial Formula Financing and agreed that, if our territory is going to take on more responsibilities and more control over our destiny, we'll obviously need more revenues.

We have heard these words of support and hope for many years, along with the promise of doing the right thing for the Northwest Territories. Federal Finance Minister Jim Flaherty plans to bring forward a proposal to the federal Cabinet to raise our borrowing limit. Minister Flaherty has indicated he will also bring forward solutions for strengthened, principle-based Territorial Formula Financing arrangements in the next federal budget. We will be watching closely to ensure that this time, promises turn to action.

Because, Mr. Speaker, we've heard the encouraging words before. We share a common goal of seeing the Northwest Territories become a self-sufficient and contributing member of Canada's confederation. I firmly believe that's also what Canadians want. And yet, we haven't seen real action on the very thing that will allow that to happen. And that's reaching an agreement on how we can share the revenues from developing our natural resources to build a strong and prosperous territory.

Like so many Northerners, I'm growing increasingly impatient with the lack of real and tangible progress on an issue so absolutely vital to the future of our territory. And frankly, time is running out. We know that the Northwest Territories is poised for enormous economic growth. A third diamond mine will be completed this year and two more mines, one diamond, one gold, are set to proceed to regulatory review. We are confident that the necessary reviews of the Mackenzie Gas Project will be completed and the project will proceed. The result will be unprecedented economic growth in the Territory ... and an opportunity for us to fulfill the promise of a self-reliant people and realize our potential as full and equal partners in this country.

That promise and potential are within our grasp .... but only if we're ready. Only if we have the right tools in place, including the right agreements with the federal government, to allow us to capitalize on the opportunity and turn it into a lasting benefit for people, families and communities all across our territory, and for the rest of Canada.

This fall, I had a chance to talk about these issues with a group of people in both Yellowknife and Inuvik. These two roundtable discussions were part of our commitment to develop a macroeconomic roadmap for the future of the Northwest Territories. The discussions brought to light a number of issues we need to address. But what struck me the most was the sense that we need to get ready. Ready to anticipate and manage the impact of growth. Ready with the skills and education our people need to take advantage of the full range of new jobs economic growth will provide. And ready to secure more lasting benefits so this doesn't become one more of the boom and bust cycles we've all seen before.

That's why I believe these next few years will be a turning point and a test for all of us. We have a window of opportunity to get ready for the economic boom that's on our doorstep. With the right tools and the right investments now, we can capitalize on the opportunities ahead. We can transform the Northwest Territories into a key economic driver, not only for the North, but for all of Canada. And most important, we can make sure the benefits of economic growth flow first and foremost to people in the North ... not just for today, but for future generations ... for your grandchildren and mine.

A Look Back

With that context in mind, let me take a few minutes to talk about some of the highlights of what the Members of this Legislative Assembly have been able to achieve over the past three years.

In 2005, we implemented our *Fiscal Responsibility Policy* – a policy that committed us to manage our fiscal resources in a sound and prudent manner and to invest wisely in addressing current and future needs. This policy continues to guide our actions today. And one of the tangible outcomes of our responsible fiscal approach was a favourable Aa3 credit rating from Moody's Investors Service, which was recently upgraded to an even more favourable Aa1 rating.

During the first three years of this government, we have increased funding for social programs by more than $94 million – for education, health and social services, housing and justice. This allowed us to:

- increase the number of doctors and nurses and improve health services;
- strengthen school programs and support for students;
- renew the mandate of the NWT Housing Corporation; and
- launch a comprehensive review of income security programs.

We have also fundamentally reshaped the role of community governments through the development and implementation of the *New Deal*, which puts responsibility for community decisions where it belongs – in communities and with people who are directly involved and accountable.

We've focused our efforts on achieving sustainable economic growth and balancing support for large resource developments with a firm commitment to small business and traditional economic activities. Specifically:

- we established the Department of Industry, Tourism and Investment to focus our efforts on achieving sustainable economic growth;
- we consolidated our support for small business through a new Business Development and Investment Corporation;
- we completed the necessary socioeconomic agreements with the Mackenzie Gas Project and the DeBeers Snap Lake Project, to ensure northern employment and business opportunities; and
- we've expanded support for tourism, arts and crafts and the traditional economy.

As well, we have ensured that protection of the environment continues to be a priority for our government. To that end:

- we created the Department of Environment and Natural Resources to provide a focus for the government's role in environmental stewardship;
- we implemented a beverage container recovery program; and

- we have advanced the *Species at Risk* legislation with a draft bill expected towards the end of the 15th Assembly.

Nearly $300 million has been invested in capital projects over the past three years, providing essential support for winter roads, bridges and paving projects, and new or renovated schools in nine communities.

Mr. Speaker, all Members of this Assembly should be proud of what we've achieved. The investments we've made and the steps we've taken over the past three years have unquestionably benefited people and communities in all regions of our territory. And I believe those benefits will only grow in the years ahead.

Budget 2007-08 Highlights

One of the biggest challenges of success is that we have to keep on being a success. It means there is no time to sit back, pat ourselves on the back, and say our work here is done. In fact, we're only just beginning.

Our challenge is to take the successes we've achieved, build on that solid base, make the right strategic investments, and position the Northwest Territories for a more prosperous and successful future.

To that end, let me turn now to the highlights of this budget.

Based on currently available information, we are projecting an operating surplus of $46 million for the current fiscal year, 2006-07. This reflects the responsible fiscal approach taken by this government and Legislative Assembly, an approach that allows us to meet our obligation to repay, this fiscal year, $290 million in corporate tax overpayments made to our government several years ago by the Government of Canada. Through prudent fiscal planning, we have most of the necessary funds to repay this amount, with the requirement to borrow only $8 million at the end of this fiscal year to cover the balance.

For 2007-08, we estimate our total revenues to be $1.231 billion, an increase of 4.3 per cent over last year. Although we will not know the final numbers for certain until the federal government's budget is tabled, the federal Minister of Finance has guaranteed that the Territorial Formula Financing Grant for 2007-08 will not be less than $764 million. As I mentioned earlier, we are expecting proposals in the next federal budget that will outline new Territorial Formula Financing arrangements.

In terms of spending, the budget for 2007-08 includes a net increase of $89 million in spending, an increase of 8.3 percent over last year. This includes $55 million to address increased social program costs, to meet higher fuel costs and to maintain competitive wages for teachers, health care workers and other public sector employees, as well as $38 million in additional spending on key priorities identified by Ministers and legislative committees.

We also recognize there is considerable uncertainty in our fiscal picture. I have committed to Members that I will consult with them on the allocation of any additional

revenues resulting from the federal budget, and return to this Assembly in May with a revised expenditure plan if required.

The budget also includes an estimated $151 million for public infrastructure, including $30 million to fund school renovations and construction and $37 million for road transportation projects.

We expect to end the 2007-08 fiscal year with an operating surplus of $44 million. The government's direct debt at the end of the year is estimated to be $50 million, with total debt subject to the $300 million debt limit estimated at $189 million.

Those are the key numbers. But what people listening to this budget today want to know is: where will the money be spent?

This budget reflects our continuing commitment not only to responsible fiscal management, but also to ensuring that every dollar we invest tackles the most pressing problems, addresses the right priorities, and helps position the territory for a better future.

Social Programs

This year's budget includes key investments in social programs, especially education, health care and social services.

As we heard at the roundtable sessions this past fall, investments in these key areas are critical to make sure people are ready to take advantage of the opportunities economic growth will bring. People said, it's not just about money. It's about putting people first ... making sure the economy works for people and that individual Northerners, their families and their communities can benefit from all the opportunities economic growth can bring. That means focusing on education, making sure our children and young people get the education and skills they need to participate fully in the future of our economy. And it means building healthy families and healthy communities.

This budget reflects those messages directly. As part of this year's total budget for the Department of Education, Culture, and Employment of $286 million, we will invest:

- $962,000 to complete the implementation of full-day kindergarten;
- $1 million to enhance child care subsidies;
- $3 million to increase student support;
- $3.9 million to reduce the pupil-teacher ratio, and provide physical education and trades programs in Northwest Territories schools;
- $301,000 to support the delivery of a Language and Cultural Instructor Program at Aurora College; and
- $175,000 to enhance literacy programs and supports.

In addition, the budget allocates $320,000 to enable the Department of Transportation to hire apprentices to work with journeymen in the department.

We'll also continue our investment in schools with new construction in Tulita, Gameti, N'Dilo and Yellowknife, construction of an Aurora College Learning Centre in Fort Simpson, as well as planning for a new school in Inuvik.

In terms of Health and Social Services, the total budget of $277 million includes:

- $360,000 for an Aboriginal Wellness Program;
- $137,000 to promote reduced use of tobacco;
- $431,000 to support increasing costs for taking care of the elderly, people with disabilities, and services provided for long term care;
- $1.2 million to strengthen rehabilitation services;
- $1.3 million for increased costs for physician and hospital services; and
- $425,000 for non-government organizations to address increasing costs of providing critical services.

Steps will also be taken to renovate parts of the Stanton Territorial Hospital and the Fort Smith Health Centre, and to consolidate the medical clinics in Yellowknife. The Department of Health and Social Services will also continue working with other provinces and territories to develop electronic medical records and expand the use of technology in the diagnosis of medical conditions.

Housing remains a key concern across the Northwest Territories. During the past year, programs offered by the NWT Housing Corporation have been restructured with a renewed focus on expanding the stock of housing in communities. In 2007-08, the Housing Corporation is allocating $16.25 million for its *Affordable Housing Initiative*, which together with additional matching funds available through the federal Northern Housing Trust, brings the total investment to $32.5 million. We expect this to result in the construction of an additional 168 housing units – some made available through the homeownership programs of the Housing Corporation, and others replacing older public housing units. Work will also continue during the year to streamline existing Housing Corporation programs.

This year the Department of Justice will continue its work to strengthen community programs and services. This budget includes:

- $428,000 to establish an RCMP detachment in Sachs Harbour;
- $688,000 to expand activities of Community Justice Committees;
- $233,000 to enhance Legal Aid; and
- an additional $1.9 million to support RCMP activities across the Northwest Territories.

In addition, Social Program Ministers are working together on a number of important initiatives. The Income Security Reform work will continue throughout 2007-08 and will build on the policy framework that is currently in place. As the detailed work proceeds, this Assembly may be asked to consider enhancing some key programs. At the same time, the 2007-08 budget provides:

- $695,000 to address Homelessness;

- $262,000 to support a pan-territorial sports strategy; and
- $180,000 to support the *Healthy Choices Framework*.

It is worth noting that many of the initiatives described above will be done in partnership with community-based non-government organizations. These organizations are an important part of our network of social supports.

Governance

Turning to communities, as I mentioned earlier, the *New Deal* is a significant achievement of this Legislative Assembly. Through the work of the Department of Municipal and Community Affairs and the NWT Association of Communities and the contributions of many elected municipal representatives and staff from across the Northwest Territories, we have reshaped the role and authorities of community governments.

Beginning in the 2007-08 fiscal year, the Government will flow $22.5 million in formula funding directly to community governments, to allow them to make critical investments in community infrastructure to meet local priorities. Community governments will receive $90 million in direct funding, an increase of 10 per cent over 2006-07. In addition to community infrastructure funding, this budget includes:

- $4.1 million to increase contributions under the municipal funding formula;
- $3 million to increase funding for water and sewer services;
- $800,000 for the municipal insurance program; and
- $150,000 to support the development of community energy plans.

Protecting Our Environment

It is our responsibility to ensure that the environment we enjoy today will be here for our children and our grandchildren. This budget includes:

- $500,000 in additional funds to complete biophysical studies that will ensure we have the necessary data to monitor, assess and mitigate the effect of proposed resource developments in the western Northwest Territories; and,
- $500,000 in additional funds for the *NWT Barren-ground Caribou Management Strategy* to further our efforts to protect this important and declining resource.

Over the coming year we will also invest in improving the efficiency of our regulatory approval process by building capacity within the Northwest Territories.

Supporting Economic Growth

Mr. Speaker, all of the investments I've just highlighted are critical for communities and for individual Northerners. And they will help create stronger communities and build the capacity of our people to live independent, productive and positive lives.

But our future will not be secure simply by expanding government services and government spending. We need to build the kind of sustainable, balanced and vibrant economy that will sustain communities and our territory and create opportunities and hope for future generations.

Today, we look at the Northwest Territories economy and see many positive signs. While much of our attention is focused on resource development projects, our goal is to see growth and development in all sectors of the economy. That was one of the clear messages from participants in the two macroeconomic roundtables last fall. People want to see an economy that's balanced and sustainable ... not just focused on resources but including large and small businesses, tourism, and the traditional sectors of our economy. That's critical to ensure there are long-term benefits, and those benefits flow directly to Northerners.

This fall, we expect the third Northwest Territories diamond mine to come into production. This will provide additional opportunities for Northern businesses and employment.

With respect to the Mackenzie Gas Project, our position is clear. We support the project and we want to see it proceed. But we must be assured that:

- construction and operation of the project will be undertaken in an environmentally and economically sustainable manner;
- over time, the benefits of northern development will accrue to Northwest Territories residents; and
- the project will be undertaken in a way that encourages exploration and development of the Basin on as broad a basis as possible.

This year, we will spend an estimated $1.7 million to support planning for the Mackenzie Gas Project and to ensure that our people, communities and businesses are adequately prepared to meet the demands and maximize the benefits that this project will bring to our territory.

This government is maintaining its commitment to tourism through the *Tourism 2010 Strategy* that was tabled in the Legislative Assembly one year ago, by renewing its investment of $1 million. This investment will support marketing research, tourism training, infrastructure, and product development, and will encourage the continued expansion and development of this important contributor to the Northwest Territories economy.

The hunting and trapping industry is important to many of our communities. The fur industry is experiencing a resurgence. In support of this growth, the budget for the Genuine Mackenzie Valley Fur Price Program has been increased by $200,000. Also, as part of this budget, an additional $120,000 is being provided to the Community

Harvesters Assistance Program; $247,000 to the Fort Smith Metis Council Western Harvesters Assistance Fund; and $211,000 to the Salt River First Nation Harvester Assistance Fund.

We know that developing our economy requires investments in infrastructure that will connect our communities, provide access to our resources, and lower the cost of living and doing business in the Northwest Territories. An efficient and effective transportation system is essential to achieving this and we are doing our part. This budget includes more than $47 million to fund improvements to existing highways and winter roads, to replace bridges and to undertake airport improvements.

Developing our energy potential and reducing our dependence on fossil fuels is also critical. The *2007 Energy Plan* will provide both a framework to guide future government decisions with respect to energy development, supply and use in the Northwest Territories, and an action plan to respond to the concerns raised by our residents. The planned *NWT Greenhouse Gas Strategy* will complement the *2007 Energy Plan* by calling for emission reductions to protect the environment. To support both of these important initiatives, we continue to pursue, through the NWT Power Corporation, opportunities to develop the Northwest Territories' enormous hydro potential, including the proposed expansion of the Taltson River facility.

Mr. Speaker, those are the spending highlights of the budget for 2007-08.

Revenue Initiatives

There is one more piece of good news for everyone in the Northwest Territories. This budget includes no tax increases.

Frankly, we want to keep taxes as low as possible, particularly because the cost of living, working and doing business in the North continues to be significantly higher than the rest of Canada. As a government we intend to maintain a fair and competitive tax structure, one that will generate the revenues we need to fund important programs and services, but which also encourages people to live here and businesses to invest in growing our economy.

Since last February's budget, we made two changes to the income tax system. Effective July 1, 2006 the NWT corporate tax rate for large businesses was reduced from 14 per cent to 11.5 per cent. In November we increased the Dividend Tax Credit for Northwest Territories residents investing in Canadian corporations. Both measures help make the Northwest Territories a more competitive tax jurisdiction. And our small business tax rate is still one of the lowest in the country.

One of the important steps we will pursue this year is an increase in the existing federal Northern Residents Deduction. That deduction is designed to help residents of all three territories and northern regions of the provinces address our high northern cost of living. But the amount of the deduction has not been changed significantly since it was introduced in 1988. Meanwhile, the cost of living in the Northwest Territories has increased by an estimated 44 per cent. I have written to my provincial and territorial colleagues asking for their support to have the Deduction increased to reflect current

realities. Mr. Speaker, that's just one of the issues we'll take forward to the federal government in the coming months.

Challenges Ahead

I can't stress enough how important and how urgent it is to address and resolve outstanding issues with the federal government. We have been patient. We've made a strong and consistent case. We've seen two national reports on Territorial Formula Financing, both of which supported our case and recommended changes we would welcome.

But in spite of that, we have no guarantees that key issues will be resolved quickly or to the benefit of Northerners.

While the federal government reaps the benefits of resource developments in our territory, we must make the necessary investments to build and sustain our economy, protect our environment and prepare our people, without many of the tools required to do so effectively. And the result is that instead of allowing us to use our own resources to become less dependent on the federal government, they keep us firmly tied to their purse strings.

The facts speak for themselves. In 2005-06, the federal government received $244 million in oil and gas and diamond royalties from our territory alone. We get no share of those royalties. This just doesn't add up.

A recent article by Russell Banta concluded that, over the past five years, the federal government has taken $923 million in resource revenues from the North, in addition to federal taxes – significantly more than the estimated $700 million cost of the much-needed Mackenzie Highway. And speaking of highways, the federal government is responsible for building new highways in our territory. And since 1987, not a single kilometre of new highway has been built in the Northwest Territories, despite our vast mineral and oil and gas potential and the revenues Canada reaps from our territory.

The federal government often talks about how much they spend in the North. And yes, in per capita terms it sounds like a lot of money. We appreciate their contribution and we depend on it far too much. But the reality is that while we received over $18,000 per person in federal transfers in 2004, the federal government raised almost $16,000 per person in revenues in the Northwest Territories. That's the part they rarely mention.

So Mr. Speaker, I want to close with two commitments to the people of the Northwest Territories.

First, I will do everything in my power to fight for resolution of three outstanding issues with the federal government: a better and more sustainable arrangement for Territorial Formula Financing, an appropriate revenue sharing agreement to allow northerners to benefit from the development of our resources, and an increased borrowing limit so we can invest in meeting our critical capital infrastructure needs.

We've waited long enough. It's time for the rest of Canada to recognize the potential of the North, to understand that we can become a leading driver in Canada's economy and a thriving contributor to the rest of Canada. But only if we have the tools to chart the right course, make the necessary investments, and capitalize on the opportunities ahead.

My second commitment is to put in place a new economic roadmap for the Northwest Territories. I intend to build on the excellent discussion that occurred at the roundtables in Yellowknife and Inuvik. Later today, I will table a report outlining what we have heard so far. After the budget, the next step is to bring people together again to discuss key issues and help us chart the course for our economic future. By the end of this summer, we will have developed a policy framework to guide our decisions and help us make the right investments and the best choices in the months and years ahead.

Conclusion

Mr. Speaker, we have our work cut out for us.

The next two to three years will be a critical time for our territory. It will be a time during which we will chart a clear economic course. A time when major economic developments proceed and open up our territory to a host of new opportunities. A time when we establish a more productive relationship with the federal government and the rest of Canada begins to understand the importance of the North to the future of our country.

And most important, a time when we begin to see the future as we've always hoped and dreamed it would be. A future where our proud traditions and strong cultures, respect for our environment, and hopes for our children come together to create a proud and prosperous territory.

Mr. Speaker, I look forward to meeting these challenges head on and to working with all of you to achieve the future we want for ourselves, our families, our communities and our Territory.

2007 - 2008

Budget Address

NORTHWEST TERRITORIES

BUDGET PAPERS

A ♦Economic Review

B ♦Fiscal Review

February 8, 2007

NORTHWEST TERRITORIES ECONOMIC OUTLOOK

The NWT economy grew an estimated 3.0 per cent in 2006, largely as a result of increases in investment activity. This is up from a revised 0.1 per cent in 2005, a slowdown resulting primarily from a decline in the value of diamond exports. The diamond industry is currently the NWT's main economic driver and is largely responsible for the dramatic growth rates of 20.0 per cent and 7.6 per cent in 2003 and 2004, respectively. Since division of the former NWT in 1999, the NWT has experienced the highest cumulative economic growth of any jurisdiction in the country.

The economy is expected to perform well in 2007 with forecast growth of 2.3 per cent.

Over the medium term, the prospects for continued growth are substantial. If the proposed Mackenzie Valley natural gas pipeline is approved and constructed, the resulting economic impacts would be significant for the NWT and Canada as a whole. The NWT economy would receive a further boost, propelled initially by the construction phase of the project, and longer term through further exploration and development of the territory's substantial oil and gas resources.

The following table highlights the robust but volatile growth in the NWT economy in recent years. The main contributing factors to the growth and its associated volatility are investment in the non-renewable resource industry, especially construction of the diamond mines, and diamond exports. Consumer and government expenditures have generally grown at a moderate and relatively stable pace.

The 2006 strike at the Ekati diamond mine will likely result in a drop in diamond production and therefore exports are estimated to have declined in 2006. Investment in 2006 is expected to increase 48 per cent, and is forecast to increase a further 9 per cent in 2007, primarily due to diamond mine construction activities. Production at Snap Lake, which will be the NWT's third diamond mine, is scheduled to begin in October 2007. Applications for permits to construct and operate the NWT's fourth diamond mine, at Gahcho Kué (Kennady Lake), were filed in late November 2005.

Average weekly earnings in 2006 increased 1.8 per cent from $962 in 2005 to an estimated $979. Average weekly earnings are forecast to grow 3.7 per cent to $1,016 in 2007.

Consumer price inflation in Yellowknife (NWT-wide figures are not available), which has averaged about 2 per cent annually in recent years, remains stable. Consumer prices increased 1.4 per cent in 2006, and are forecast to grow by 1.3 per cent in 2007.

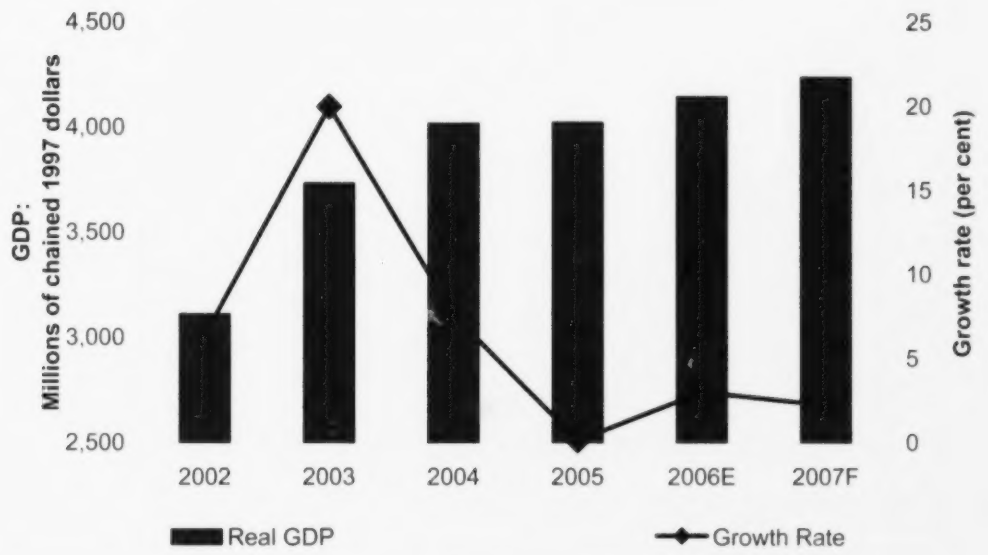
Northwest Territories Economic Indicators

INDICATOR	2004	2005	2006(E)	2007(F)
Gross Domestic Product, chained 1997 $ millions	4,018	4,024	4,146	4,240
% change	7.6	0.1	3.0	2.3
Total Investment, chained 1997 $ millions	1,099	1,323	1,953	2,134
% change	47.1	20.4	47.6	9.3
Consumer Expenditures, chained 1997 $ millions	1,030	1,065	1,109	1,154
% change	3.1	3.4	4.1	4.1
Government Expenditures, chained 1997 $ millions	1,043	1,047	1,093	1,114
% change	1.6	0.4	4.4	2.0
Exports, chained 1997 $ millions	3,169	2,993	2,882	2,977
% change	6.8	(5.6)	(3.7)	3.3
Imports, chained 1997 $ millions	2,148	2,320	2,751	2,999
% change	11.9	8.0	18.6	9.0
Employment, number of persons	21,617	22,625	22,808	23,015
% change	3.7	4.7	0.8	0.9
Average Weekly Earnings, dollars	924	962	979	1,016
% change	3.2	4.1	1.8	3.7
CPI All-Items (Yellowknife, 1992 = 100)	120.8	123.6	125.3	126.9
% change	1.4	2.3	1.4	1.3

Sources: Statistics Canada
NWT Department of Finance

(E) Estimate
(F) Forecast

NWT Real Gross Domestic Product



Sources: Statistics Canada (2002-2005) and NWT Finance [2006E - estimate; and 2007F - forecast]

EMPLOYMENT

The 2006 NWT employment level increased at a more moderate rate than in the previous two years. Employment growth in 2006 is estimated at 0.8 per cent, compared to 3.7 per cent and 4.7 per cent in 2004 and 2005, respectively. The number of employed persons was an estimated 22,808 in 2006, an increase of almost 1,900 since 2002.

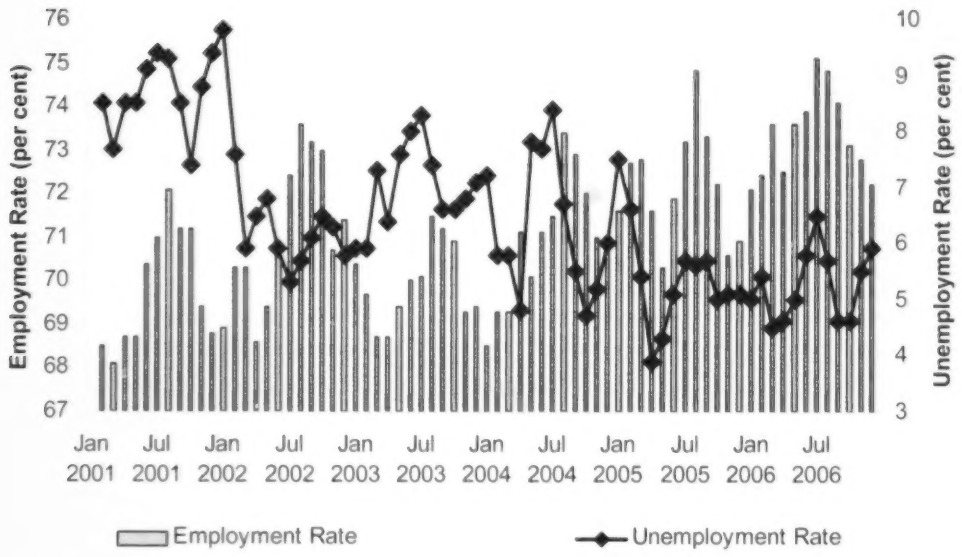
Other indicators of the labour market's health also showed positive results in 2006. For the third year in a row, the territory's unemployment rate fell, while its employment rate (the share of the working-age population with jobs) and participation rate (the share of the working-age population who are in the labour market, either as employed or unemployed individuals) both rose.

The NWT unemployment and employment rates are improving over time. The NWT unemployment rate averaged 5.3 per cent in 2006, compared to 6.3 per cent and 5.4 per cent in 2004 and 2005, respectively. The participation rate averaged 77.4 per cent last year, up from 75.6 per cent and 76.3 per cent in 2004 and 2005, respectively. The average 2006 employment rate was 73.4 per cent.

The NWT also continues to compare favourably against the national employment situation. In 2006, the NWT's unemployment rate was 1.1 percentage points lower than Canada's (5.3 per cent compared to 6.3 per cent for Canada). Both NWT employment and participation rates were over 10 percentage points higher than the corresponding Canadian rates in 2006. The NWT employment rate in 2006 was 73.4 per cent compared to 63.0 per cent in Canada and the participation rate was 77.4 per cent compared to 67.2 per cent in Canada.

Within the territory, however, differences continue to exist between the larger centres (Fort Simpson, Fort Smith, Hay River, Inuvik, Norman Wells and Yellowknife) and the smaller communities. According to the NWT Bureau of Statistics *Winter 2004 Community Survey*, the unemployment rate in the larger centres was 6.2 per cent, compared to 26.0 per cent in the smaller communities. Participation and employment rates in the larger centres were 81.2 per cent and 76.2 per cent, respectively, compared to 59.9 per cent and 44.3 per cent in the smaller communities.

NWT Labour Market



Source: Statistics Canada

INVESTMENT

Capital and Repair Expenditures in the Public and Private Sectors

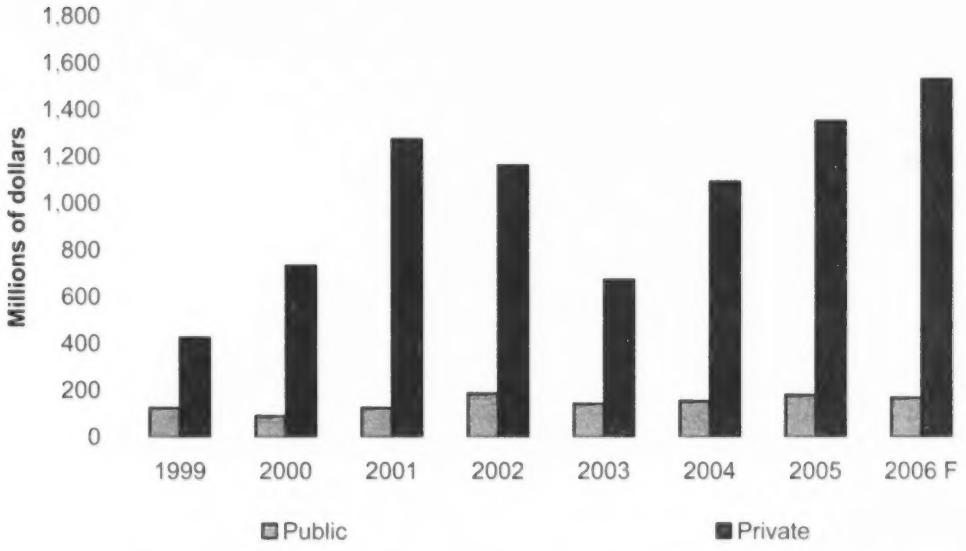
Total capital expenditures in the NWT increased 23 per cent in 2005, from $1,248 million in 2004 to $1,535 million. The private sector expended $1,354 million, or 88 per cent of 2005 capital expenditures, with the remaining 12 per cent coming from the public sector; the same share as 2004. Since division of the Northwest Territories in 1999, private capital expenditures, primarily relating to construction activity in the diamond mining sector, have ranged from 77 per cent to 91 per cent of total capital expenditures, consistently outpacing those from the public sector.

According to the 2006 Statistics Canada survey of investment intentions of public and private sector organizations, 2006 public sector capital expenditures are expected to decrease 7 per cent from 2005, from $181 million in 2005 to $169 million in 2006.

Private sector investment is projected to increase 13 per cent to $1,533 million in 2006, a record high. The increased level of investment from the private sector is due primarily to the construction of the Snap Lake diamond mine.

Rapid large-scale non-renewable resource activity continues to put pressure on public infrastructure. Ongoing public sector investment will be required to successfully address these and other strains on the territory's infrastructure.

NWT Public and Private Investment: Capital and Repair Expenditures



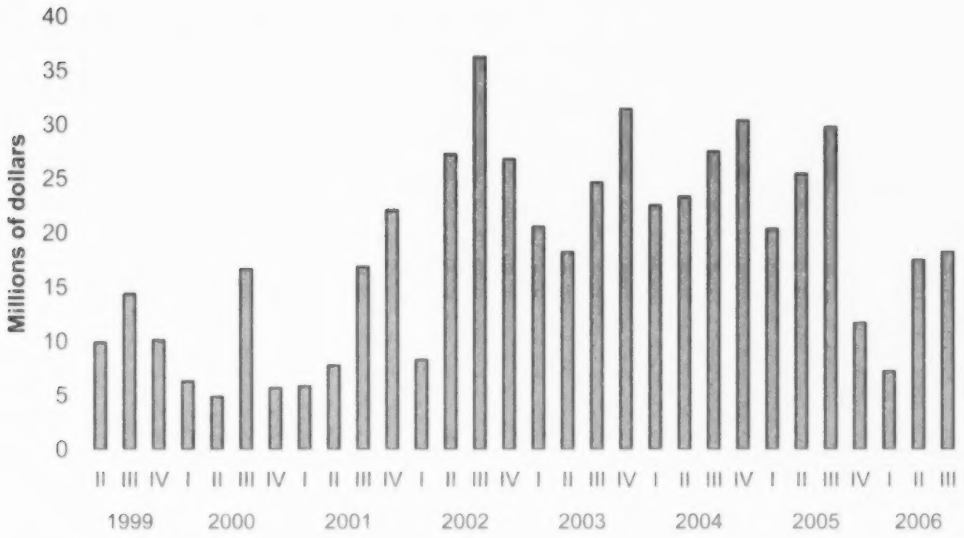
Source: Statistics Canada (Note: F = Forecast; Statistics Canada forecasts 2006 investment using its survey of investment intentions among public and private sector organizations.)

Housing Investment

Housing investment fell 16 per cent in 2005, to $87 million, following 9 per cent growth in 2004 and a decline of 4 per cent in 2003. However, because of very strong growth in 2001 and 2002, when housing investment grew by 57 per cent and 88 per cent, respectively, the level of housing investment in 2005 was much higher than in 2000 and 2001. A strong economy, low interest rates and growing personal incomes have all supported housing activity in the territory.

Through the first three quarters of 2006 (fourth quarter data are not yet available) housing investment amounted to $43 million, down substantially from $75 million in the first nine months of 2005, implying a year-over-year drop of 43 per cent in investment. Barring a strong rebound in the fourth quarter, housing investment in 2006 is likely to decline, the third decrease in four years.

NWT Housing Investment, by Quarter



Source: Statistics Canada

MINERAL, OIL AND GAS EXPLORATION AND PRODUCTION

The non-renewable resource sector is the main driver of the NWT economy. The diamond industry accounts for the majority of activity in this sector.

High commodity prices have spurred interest in mineral exploration across the territory, not just for diamonds but other minerals as well, such as gold. Even if prices for some commodities do soften as some forecasters now expect, prices are likely to remain elevated by historical standards. The high prices, in turn, should continue to benefit the NWT, which has enormous untapped potential for future growth in the non-renewable sector.

The Diamond Sector

Diamond shipments decreased in 2005, the last full year for which there are data. Shipment volume was 12.3 million carats, down 3 per cent from 2004's record level. Shipment value declined 20 per cent, from $2,097 million in 2004 to $1,684 million in 2005. The greater decline in shipment value to shipped volumes reduced the weighted average carat value of shipped diamonds from $165 in 2004 to $137 in 2005. Weighted average carat values of NWT diamond shipments have declined from values of $250 and $257 in 1999 and 2000, respectively.

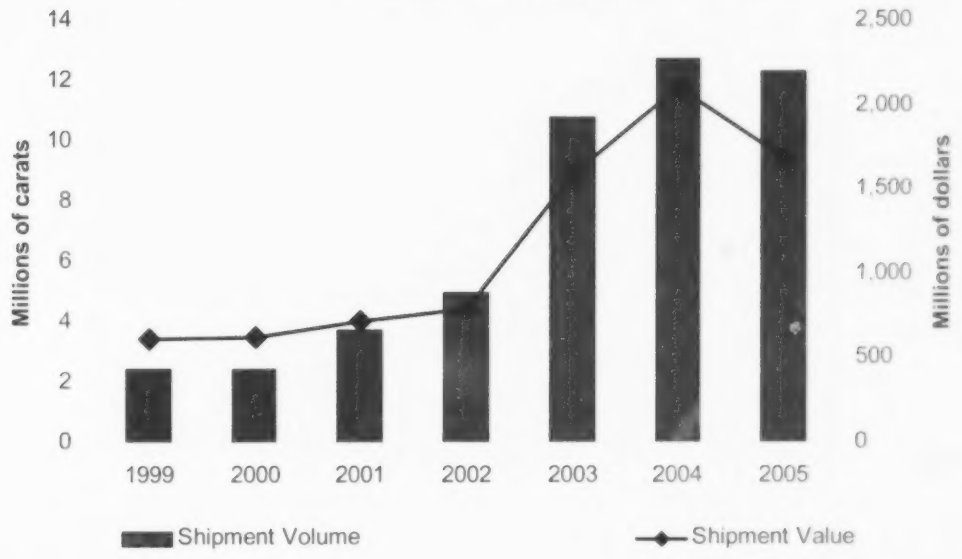
The producing mines in the NWT are Ekati (1998) and Diavik (2003). The beginning of Diavik's production is clearly visible in the graph shown below. The Jericho mine, Nunavut's first and Canada's third diamond mine, opened in 2006.

Canada remains the world's third-largest diamond producer by value, behind Botswana and Russia. Until the 2006 opening of Nunavut's Jericho mine, the NWT was solely responsible for Canada's status as a major diamond producer. However, future diamond mines are expected elsewhere in Canada, particularly in Ontario and Saskatchewan.

Further new diamond mines are expected in the NWT. Snap Lake, De Beers' first Canadian diamond mine, is currently under construction, with production scheduled to begin in 2007. De Beers announced in late November 2005 that it had filed an application with the Mackenzie Valley Land and Water Board for permits to construct and operate a second NWT mine at Gahcho Kué (Kennady Lake). If approved, the Gahcho Kué mine will be the NWT's fourth diamond mine.

Diamonds increase in value as they move through the supply chain to the point at which they are sold as jewellery at the retail level. The tasks of sorting, polishing, manufacturing and marketing diamonds add much value beyond the value of the rough stones. The GNWT has encouraged the development of a home-grown cutting and polishing industry in order to capture some of this value added. Various diamond polishing enterprises operating in the NWT help to ensure that some of these downstream benefits remain in Canada's North. However, currently only a small portion of the NWT's diamond production remains in Canada to be cut and polished.

NWT Diamond Shipment Data, Weight and Values: 1999-2005



Source: Natural Resources Canada

The Oil and Gas Sector

Expenditures on oil and gas activities in the NWT in recent years have been sustained at high levels: about $500 million in 2005 and $400 million in 2006. These costs include expenditures on exploration and development drilling, well completion and abandonment, and geophysical and geological programs. Overall, exploratory drilling levels were sustained in the Mackenzie Delta and in the central Mackenzie Valley. In contrast, there has been no exploratory drilling in the Deh Cho region since 2001.

Oil and Gas Activities in NWT

	2003	2004	2005	2006 Estimate
Prices:				
- Oil Price (WTI, $US/Bbl)	31.14	41.42	56.46	66.06
- Natural Gas Price (AB Plant gate, $/thou. Cubic feet)	6.12	6.31	8.30	6.76
Capital Spending ($million)	270	340	500	400
Wells Drilled:				
- Oil	6	1	2	2
- Natural Gas	9	6	11	7
Production:				
- Oil (thousand barrels/day)	22	21	19	17
- Natural Gas (billion cubic feet/day)	0.09	0.07	0.07	0.06

Source: GNWT Department of Industry, Tourism and Investment – Minerals, Oil and Gas Division

Total oil and natural gas production in the NWT has been gradually decreasing due to the natural depletion of known reserves. Growth in production requires new discoveries and new field developments to replace depleting wells.

The NWT continues to be attractive for oil and gas exploration because of its abundant petroleum resources. However, exploration activities have slowed in recent years. The short-lived increase in energy prices, especially natural gas prices, between late 2005 and early 2006, as shown in the following table, may have reduced industrial demand. The subsequent fall in gas prices has negatively impacted the drilling activities for the winter 2006 season in western Canada. These impacts have added medium-term uncertainty to companies' exploration intentions in the NWT.

Oil and gas shipment values have held steady for the past six years at about $500 million per year in shipments, up considerably from $243 million in 1999.

Should the Mackenzie Valley pipeline project go ahead, substantial oil and gas exploration and production is likely to take place in the Mackenzie Delta and Beaufort Sea areas, making the NWT a major exporter of energy.

Natural Gas Price (Alberta Daily Spot, $/thousand cubic feet)

2004	2005						2006					
	Jan.	Mar.	May	Jul	Sep	Nov	Jan	Mar	May	Jul	Sep	Nov
Average: 6.54	6.61	7.47	6.96	7.47	11.08	9.35	8.64	6.62	5.59	5.72	4.68	7.77
	Average: 8.73						Average: 6.66					

Source: GNWT Department of Industry, Tourism and Investment – Minerals, Oil and Gas Division

Gold Mining

For many decades gold mining was an important part of the NWT economy. However, the NWT's two remaining mines, the Con and Giant mines located in Yellowknife, shut down because of resource depletion: the Con mine in November 2003 and the Giant mine in July 2004. With these closures, over six decades of gold mining history in Yellowknife came to a close. There was no gold production in 2005, compared to approximately $9 million in 2004 and between $40 and $50 million in each of the prior five years.

However, since the Con and Giant mine closures, gold prices have increased substantially, encouraging new gold and other mineral exploration in the NWT; and one company has applied for licences to open a gold mine 90 kilometres north of Yellowknife. The following table shows that, from 2003 to 2006, the price of gold in US dollars increased 66 per cent (from US$363 to US$602[1]) and the gold price in Canadian dollars increased 34 per cent (from C$509 to C$682). As a result, six more mining companies came to the NWT searching for gold as the primary target and total gold exploration expenditures increased almost four times (from $3 million to $14 million). If companies spent 66 per cent of their 2006 exploration expenditures in the NWT[2] then $9 million dollars of the exploration expenditures should be in the NWT. In addition, from 2005 to 2006, the increased exploration expenditures in projects with gold as a by-product should also partly be attributable to the increased gold price.

The Gold Price and Northern Gold Exploration Expenditures

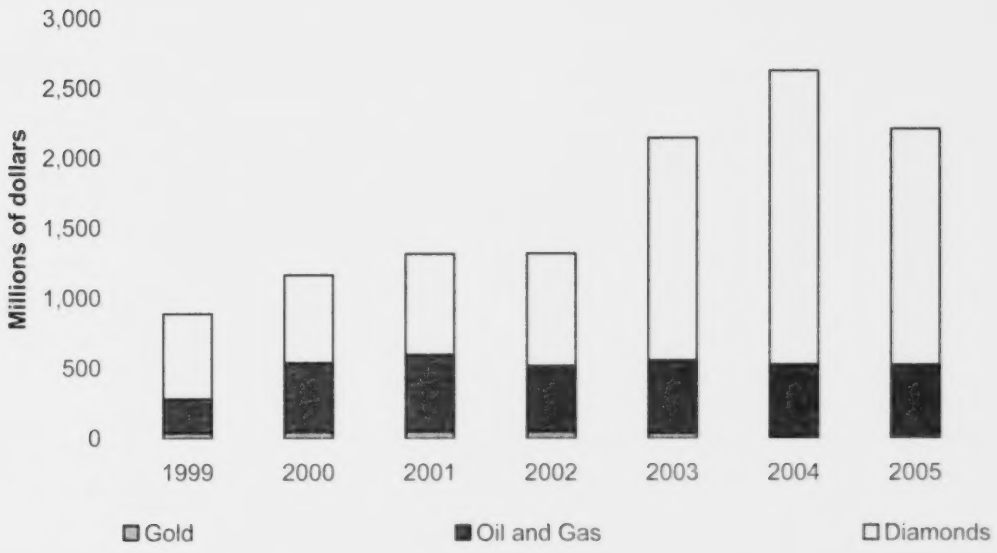
Year	Gold Price (US$/oz)	Gold Price (C$/oz)	Number of companies searching for gold in NWT		Total Expenditures on gold exploration, deposit appraisal, and mine complex development in the North ($ millions)	Presumed NWT spending (with gold as primary target $ millions)
			Gold as primary target	Gold as by-product	Gold as primary target	
2003	363	509	3	4	3	2
2004	409	532	6	4	10	7
2005	438	532	7	4	12	8
2006	602	682	9	5	14	9

Source: GNWT Department of Industry, Tourism and Investment – Minerals, Oil and Gas Division

[1] Average 2006 price London Fix, as of December 7, 2006.

[2] The Minerals, Oil and Gas Division of the Department of Industry, Tourism, and Investment, in collaboration with Natural Resources Canada, conducted a survey on the mining companies' Northern Spending and found that about 66 per cent of the companies' mineral exploration and deposit appraisal expenditures were spent in the NWT.

NWT Gold, Oil & Gas and Diamonds Shipments, by Value



Source: Statistics Canada

COMMODITY PRICES AND EXCHANGE RATES

Commodity prices remained strong throughout 2006, with some weakening of energy and base metal prices in the latter half of the year from their mid-year peaks.

Sudden increases in the price of oil have traditionally seriously affected the world's economy. However, the high oil prices of recent years have not caused the detrimental economic effects of previous oil price shocks, such as those of the 1970s. The main mitigating factors for this reduced sensitivity to the price of oil are a lower relative energy dependency in the world's major industrial economies and the fact that the run-up in oil prices has been both demand-driven (as opposed to restrictions in supply) and spread fairly smoothly over three or four years.

Increased demand for base metals, in particular from China, has lifted prices for those commodities to their highest levels in many years. Because metals prices were so low for so long, investment was neglected, which has allowed prices to increase further in the face of increasing demand, as metals stockpiles have been reduced to their lowest levels in decades. Although new investment has subsequently been undertaken to meet the current demand, it is not expected to lead to additional supply for several years.

Canada, as a major exporter of commodities, has benefited from a terms-of-trade improvement (an improvement in the ratio of export to import prices). This has led to an increase in Canadians' real incomes and a large increase in the value of the Canadian dollar relative to the US dollar and also to many other major international currencies. However, as commodity prices softened in late 2006, the Canadian dollar surrendered some of its gains against the US dollar and some other global currencies, such as the

euro and the pound, thereby erasing many or all of the gains that it had posted earlier in the year, when prices for many important commodities peaked.

The outlook for commodity prices in 2007, and therefore in large measure the Canadian dollar, depends on whether demand for energy and metals holds up under the increased prices. Since the current commodities cycle is driven mainly by a Chinese investment boom in combination with a US consumption boom, a slowdown in either of those countries would likely cause commodity prices to decrease from their current levels. However, continued strong growth in those economies may allow commodity prices to maintain, or even increase, their gains. From an historical point of view, however, the upswings of commodity cycles, although of varying intensity and duration, have never extended indefinitely. This is because at some point higher prices cause demand growth to lessen and supply growth to quicken, thus reducing the market tightness that had led initially to the higher prices.

Oil Prices

Oil prices increased for the fifth straight year in 2006, with prices averaging US$66.09 per barrel for West Texas Intermediate (WTI), a 17 per cent increase from the 2005 average of US$56.46. As recently as 2001, the price of WTI averaged US$25.94 a barrel, less than half the level of last year.

After hitting all-time record nominal highs over the summer of approximately US$77 a barrel, oil prices began to moderate after August, once it had become apparent that hurricanes were unlikely to be as severe as in 2005 and as concerns about softening US economic growth began to intensify. By year-end 2006, prices were back to 2005-year end levels. By February 2007, the price of WTI was in the about US$58.

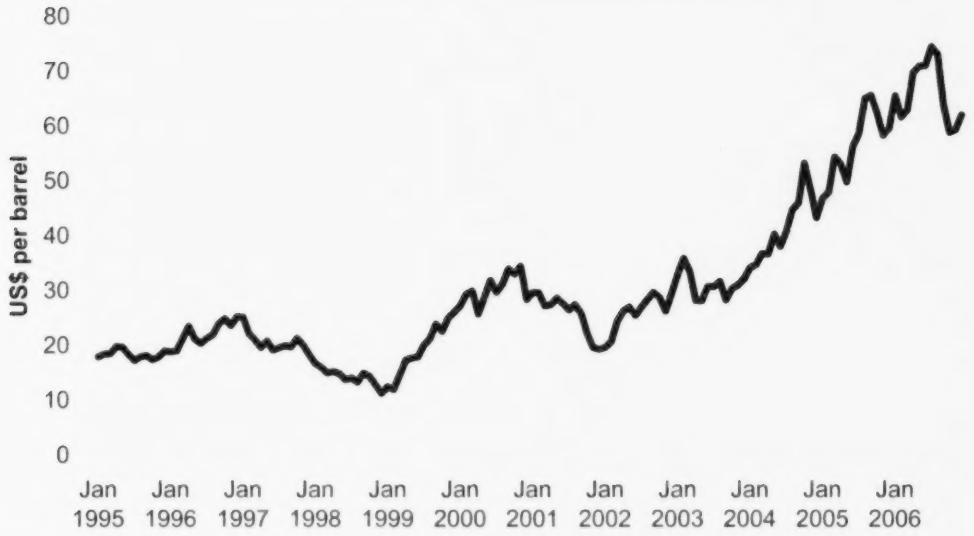
This rapid price decline has sparked new talk about production cuts by some Organization of Petroleum Exporting Countries (OPEC) members, such as Venezuela and Iran. Others in OPEC, such as Saudi Arabia, have suggested further production cuts are unnecessary, noting that previously announced cuts have already begun to stabilize the oil market by shrinking oil inventories in major consuming countries, and therefore that the current price decline simply represents a correction to the earlier, speculation increase in prices.

As the following graph shows, oil prices remain much higher than over the recent past, which has led to continued oil booms in oil-producing countries, including Canada.

Natural Gas Prices

For the first time in four years, natural gas prices fell in 2006, to US$7.23 per million British thermal units (MMBtu) at Henry Hub, Louisiana from US$8.62 per MMBtu in 2005. Comparison with 2005 prices is difficult because Hurricanes Rita and Katrina seriously damaged US Gulf Coast energy infrastructure, causing prices to increase. Even though the average price of natural gas at Henry Hub declined year-over-year, it remained well above the levels of recent years – specifically, US$6.14 per MMBtu in 2004, US$5.39 per MMBtu in 2003 and US$3.22 per MMBtu in 2002.

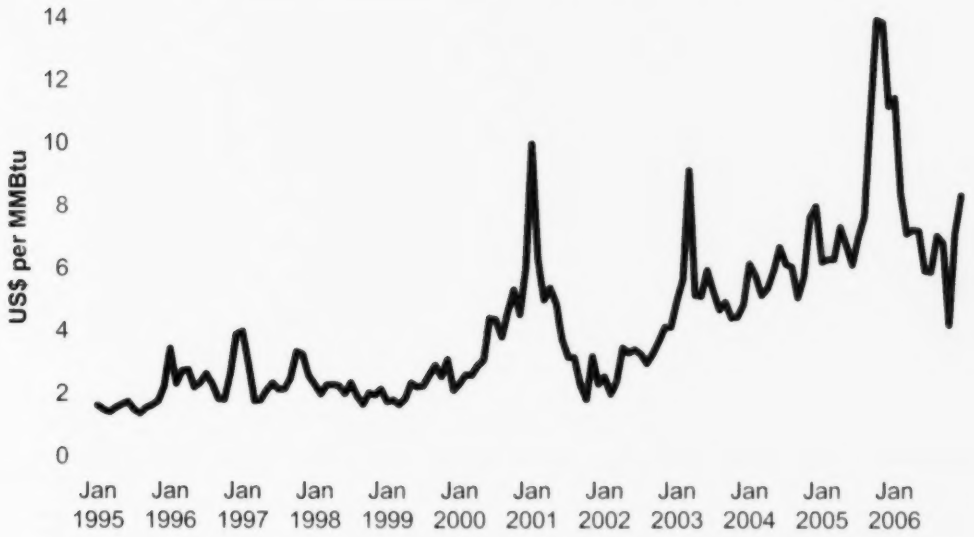
Price of Oil: West Texas Intermediate



Source: Sproule Associates Limited

Natural gas prices, which are more volatile than oil prices, fell significantly in October 2006. Prices recovered in November and December, and decreased again in January 2007 due to a combination of warm weather and ample gas stockpiles in storage. As February 1, 2007, the price of gas at Henry Hub was US$7.80 per MMBtu.

Price of Natural Gas: Henry Hub NYMEX



Source: Sproule Associates Limited

Diamond Prices

Because each diamond is unique, it is difficult to track the prices of diamonds. A diamond's value hinges on four characteristics, known as the "four Cs": colour, clarity, carat (weight) and cut. By controlling for these factors, it is possible, in theory, to derive indices that approximate prices for diamonds of a certain quality, and by aggregating such indices, it is possible to derive an overall index that tracks movements in the prices of polished diamonds. PolishedPrices.com publishes a price index on its website using this approach.

The PolishedPrices.com website explains its methodology for the calculation of its polished price index as follows: "The PolishedPrices Indices are created by weighting each of the individual prices of transactions reported to PolishedPrices.com by an estimate of the total world production of polished prices over the ranges covered."

As the following graph shows, in the two years to January 2004, the index fell, but has since risen and is currently about 24 per cent higher than its low in January 2004.

Polished Diamond Price Index: Overall Index, January 2002 - January 2007

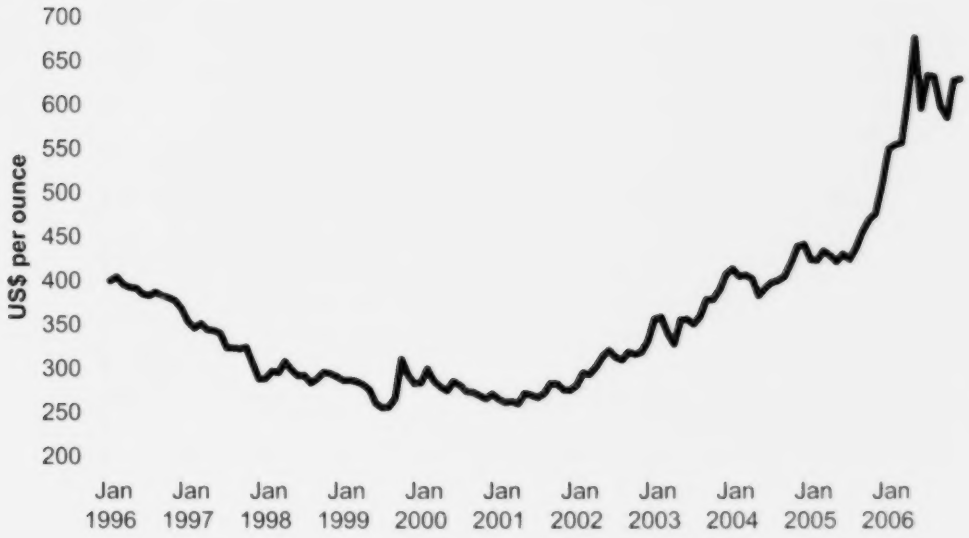
Source: PolishedPrices.com (reprinted with permission)

Gold Prices

Gold prices increased for the fifth consecutive year in 2006, rising to an average of US$603.46 an ounce in 2006, a 36 per cent increase over the 2005 average of US$444.74 an ounce. The gold price ranged from a low of US$524.75 an ounce in January to a high of US$725.00 an ounce in May, its highest since 1980 and close to a record in nominal terms. (The gold price peaked at US$850 in January 1980.) The year-end price of gold was near US$630 an ounce.

The gold market continues to be influenced by geopolitical conflicts. Oil market volatility, inflation concerns, weakness in the US dollar and rumours of central banks diversifying some of their foreign exchange reserves into gold have put positive pressure on gold prices. Traditionally, gold has been viewed as a hedge against inflation and a defence during political and economic uncertainty, and for the first few years of the recent gold price rally, the increase in gold prices was due mainly to weakness in the US dollar, with which gold has typically had a strong inverse correlation. Since 2005, however, despite stabilization in the value of the US dollar, gold prices have continued to increase, an indication of a broadening bull market for gold.

Price of Gold: 1996-2006



Source: Kitco Precious Metals

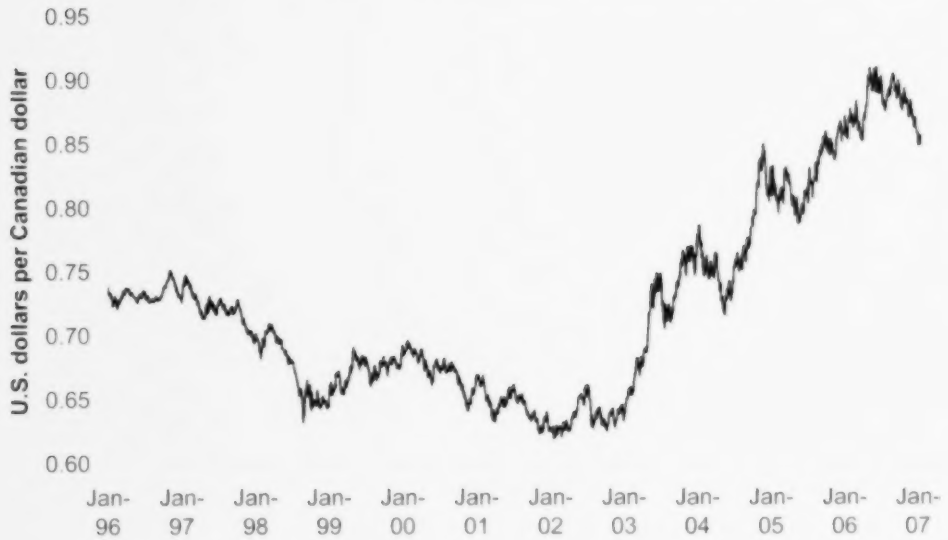
The Canadian Dollar

In 2006, for the first time in five years, the Canadian dollar lost ground against the US dollar, ending the year fractionally lower than where it began, at US 85.81 cents, compared to US 85.98 cents at year-end 2005. The Canadian dollar was much higher at mid-year, when commodity prices were high, but declined as commodity prices softened

and concerns mounted about growth in the Canadian economy in the last half of the year. Before 2005, the Canadian dollar had risen four years in a row.

However, against other major currencies, the Canadian dollar behaved differently last year. The Canadian dollar declined against the euro and the pound, mainly due to the belief that further interest rate increases in Europe were unlikely; but has held relatively constant against the yen and as of mid-January 2007, it is near 103 yen, placing it near the highest level (reached in 2006) since the early 1990s.

US-Canada Exchange Rate (US$/C$) Since 1995



Source: Bank of Canada

MANUFACTURING SHIPMENTS AND TRADE

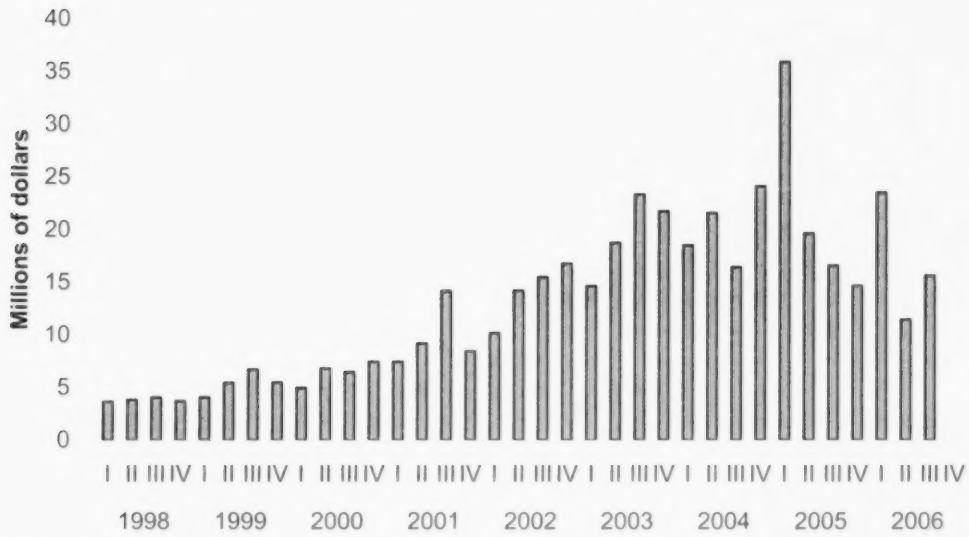
Both NWT manufacturing and trade have benefited from the strong economic growth of recent years, primarily because of the NWT diamond industry. Much of the NWT's manufacturing shipments consist of cut and polished diamonds. As the number of raw diamonds available for processing in the NWT has increased, the NWT's manufacturing shipments have also increased.

Manufacturing Shipments

As they have every year since division in 1999, manufacturing shipments continued to grow in 2005. Growth for 2005 was 8 per cent, more than 2004's growth of 3 per cent, but well down from growth rates ranging from 18 to 53 per cent experienced from 1999 to 2003. Because of such large growth, manufacturing shipments, which totalled $22 million in 1999, had quadrupled by 2005, to $87 million.

Manufacturing shipments in 2006 are not expected to maintain this trend. Through the first three quarters of 2006, the most recent period for which statistics are available, shipments were $51 million, a sharp decline of 30 per cent from the comparable period in 2005, when shipments of $72 million were made. Shipment levels were especially high in the first quarter of 2005, making comparisons difficult. Nevertheless, it is expected manufacturing shipments for 2006 as a whole will be lower than in 2005, the first annual decline since division of the NWT in 1999.

NWT Manufacturing Shipments, All Industries



Source: Statistics Canada

Wholesale Trade

Wholesale trade increased 8 per cent in 2005 to $208 million, after declines of 34 per cent and 3 per cent in 2003 and 2004, respectively. The decreases in the two previous years resulted primarily from completion of major construction at the Diavik diamond mine in 2002. The increase in 2005 was attributed to the start of construction of the Snap Lake diamond mine.

Wholesale trade totalled $172 million in the first three quarters of 2006, a 9 per cent increase from the comparable period in 2005, when trade was $158 million.

In general, wholesale trade shows a close correlation with resource development and has been positively affected by the growth in the diamond-mining sector.

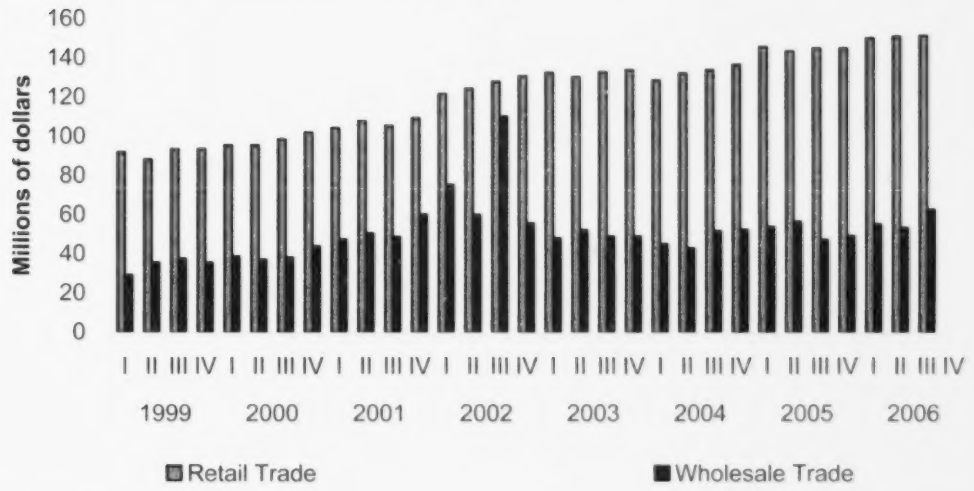
Retail Trade

After growth of just 0.4 per cent in 2004, retail activity increased 9 per cent in 2005, returning the NWT to the general trend since division of outperforming the national

average. Strong growth in retail trade results from strong economic conditions and increasing personal income. Trade grew over the 1999 to 2005 period by a cumulative 58 per cent, from $367 million to $580 million. The largest single year's growth of over 18 per cent occurred in 2002.

Retail trade increased from $435 million for the first three quarters of 2005 to $453 million for the first three quarters of 2006, an increase of 4 per cent.

NWT Retail and Wholesale Trade, Seasonally Adjusted



Source: Statistics Canada

RENEWABLE RESOURCE SECTOR

The renewable resource sector is an important part of the NWT economy and provides valuable employment opportunities to many residents.

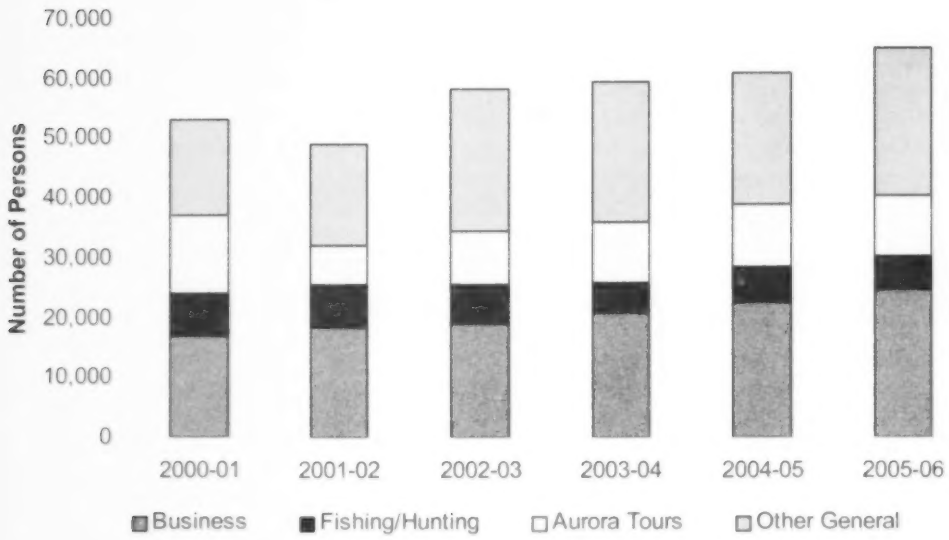
Tourism

Tourism is an important part of the NWT's economy with untapped potential, including niche categories such as cultural tourism, diamond-based tourism and the international tourist market.

Over half of the leisure visitors to the NWT come from other parts of Canada, primarily Alberta, British Columbia and Ontario. However, a lack of road infrastructure in the NWT remains an impediment to tourism expansion, especially in regard to the growing recreational vehicle market.

There are two components to the NWT's tourist trade: leisure travel, and business travel. Total tourism spending totalled $106 million in 2005-06; roughly divided evenly between the two segments.

Visitors to the Northwest Territories



Source: GNWT Department of Industry, Tourism and Investment
Notes: F = Forecast
"Other General" category includes European visitors, visitors seeing friends/relatives, outdoor adventure travellers, and general touring visitors

Leisure Visits

In 2005-06, 40,393 persons travelled to the NWT for leisure, a 6 per cent increase from the 38,084 leisure visitors in 2004-05. Spending by leisure visitors increased 3 per cent, from $49.9 million in 2004-05 to $51.2 million in 2005-06. Compared to 2000-01, leisure visitation is up 12 per cent in volume terms (36,144 persons in 2000-01) but down in terms of spending ($52.6 million in 2000-01). A decline in the aurora tours (principally Japanese) market, falling from $15.9 million in 2000-01 to $12.5 million by 2005-06, is the main factor for the decline in overall spending. The number of aurora tourists has also declined from 2000-01, but leisure visits in other markets, especially general touring, have offset aurora tour visitor decreases.

While tourist numbers and spending among those visiting friends and relatives, those engaged in general touring, and those from European countries grew in double-digit percentage terms in 2005-06, there were declines in fishing and outdoor adventure tourists and little change in the number of hunters or aurora visitors. Those results contrast sharply with those of 2004-05, when the hunting and fishing categories had the strongest growth and the biggest percentage decline was seen among European visitors, highlighting the volatility in leisure travel to the NWT.

Shares of spending by each leisure visitor category on a per person basis are not equal. In 2005-06, total leisure tourist spending was $1,268 per person. Leisure visitors who came to see friends or relatives spent $410 per person, general touring visitors spent

$525 per person, both outdoor adventurers and Europeans spent $864 per person, aurora tourists spent $1,223 per person, tourists who came to fish spent $1,895 per person and hunters spent $13,511 per person.

Business Visits

The strength of the NWT economy contributes to the growth in the number of business visitors. Both volumes and spending among business visitors have risen each year since 2000-01, when 16,876 visitors contributed $37.5 million to the economy. By 2005-06, business visitors had increased to 24,624 with $54.7 million in spending. Further, in contrast to the volatility inherent in the leisure travel market, business-related tourism has remained along a steady growth path.

Business visitors spend more on average than leisure tourists. Since 2000-01 business travellers contributed more to total leisure and business tourism receipts than to total tourism numbers. In 2005-06, business travellers were 37.9 per cent of visitors, but spent 51.6 per cent of total disbursements. Spending by business travellers has also become more important over the last five years: in 2000-01 they contributed just 41.6 per cent to total receipts, by 2005-06 that share had grown to 51.6 per cent.

Encouraging Further Growth in Tourism: The Tourism 2010 Initiative

In 2006, the GNWT announced *Tourism 2010: A Tourism Plan for the Northwest Territories*, a long-term plan to further develop the territory's $100 million tourism industry. This initiative seeks to build upon existing strengths with further funding support in product development, infrastructure, human resource training, marketing, research and planning. The Plan's objective is to expand the NWT tourism industry to $145 million annually by 2010.

Commercial Fishery

The NWT's commercial fishery is a small but valued part of the territory's economy. According to the Freshwater Fish Marketing Corporation (FFMC) – a self-sustaining federal Crown corporation which functions as the buyer, processor and marketer of freshwater fish from Alberta, Saskatchewan, Manitoba, the NWT and part of northwestern Ontario – the commercial fishery in the NWT has declined in recent years.

Continuing the downward trend, the FFMC reports that initial payments to NWT fishers – on a delivery-point, net-of-freight basis – fell in fiscal 2006 (the year ended April 30, 2006). Payments have fallen to slightly less than half their fiscal 2002 level ($705,000 in fiscal 2006 versus $1.5 million in fiscal 2002).

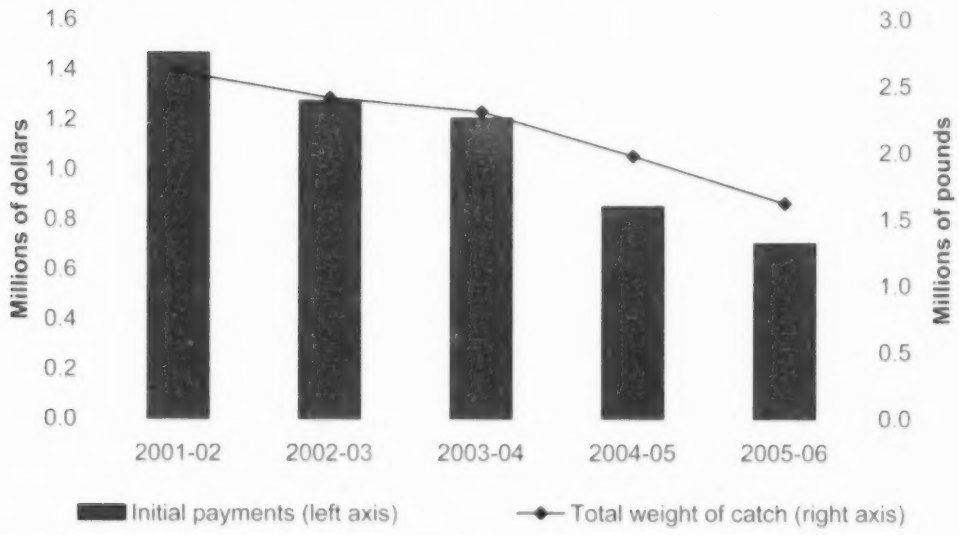
The total weight of the freshwater catch has declined in similar fashion to receipts, although not quite to the same magnitude, indicating that pricing for freshwater fish has generally been poor in recent years. In total, 1.622 million pounds of fish were harvested from the NWT's freshwater lakes and marketed through the FFMC in fiscal 2006, compared to 2.609 million pounds in fiscal 2002, a 38 per cent decrease over the period. The main species continues to be whitefish, which, at 82 per cent of the haul,

contributed over four-fifths of the total catch in fiscal 2006. Since fiscal 2001, the proportion of the harvest made up of whitefish has varied between 72 per cent and 82 per cent. Other species include pickerel, northern pike, mullet (not caught since fiscal 2004) and others.

According to the FFMC's first quarter report for fiscal 2007 (May 1 to July 31, 2006), freshwater fishers in the NWT continue to struggle. Initial payments were down 11 per cent from the same three-month period one year earlier, with deliveries of all species reduced from the prior period; whitefish deliveries were down 7 per cent, while pickerel deliveries, originating mainly from Kakisa Lake, were down 19 per cent. However, the FFMC did indicate some progress in the size grading of whitefish, with an increased presence of mediums, large and even some jumbos.

The increase in the value of the Canadian dollar relative to the US dollar since 2002 has hurt the freshwater fishery in Canada, and lower fish volumes in the NWT indicate a lower participation in the NWT commercial fishery, due, at least partly, to unfavourable pricing, especially in Canadian dollar terms. (The United States is the major market for Canada's freshwater fish, and sales there are transacted in US dollars.)

NWT Commercial Fishery Activity, Fiscal Years ending April 30th



Source: Freshwater Fish Marketing Corporation

Fur Harvest

For many people in the NWT, trapping remains an important source of cash income, especially in the smaller communities, and allows for a connection with the land that is not possible in most other occupations. In the fiscal year ending June 30, 2006 (the international furriers' standard fiscal year), there were 695 active trappers throughout the NWT (fiscal 2005: 704 trappers), although not necessarily on a full-time basis. Pelts were harvested from a total of 21 separate species.

Total harvest in per pelt terms declined 44 per cent in fiscal 2006, from 42,491 pelts in 2005 to 23,967 pelts. However, improved pricing for important species and a change in harvest mix toward those species increased the value of the harvest 47 per cent, from $951 thousand to $1.4 million. This is the highest revenue going back at least to division in 1999.

In fiscal 2005, the 8,522 marten pelts harvested were a 20 per cent share by volume of the total pelt harvest; in fiscal 2006, the number of marten pelts harvested grew to 9,693, 40 per cent of the reduced total harvest. In addition, pricing for marten pelts increased 48 per cent from an average of $71 per pelt in fiscal 2005 to $105 per pelt in fiscal 2006.

Those species with the greatest price improvement in fiscal 2006, measured in terms of percentage change on a per pelt basis, were: weasel (up 170 per cent), squirrel (up 146 per cent) and fisher (also up 146 per cent). The greatest deteriorations in percentage terms in fiscal 2006 were: coyote (down 73 per cent), silver fox (down 32 per cent) and cross fox (down 15 per cent).

In per pelt terms, the most valuable species in fiscal 2006 were grizzly bear ($1,691 a pelt), arctic wolf ($221 a pelt) and tundra wolf ($207 a pelt). In previous years, the polar bear was included among the top three positions but no polar bears were recorded as harvested in fiscal 2006. In fiscal 2005, the top three most valuable pelts by species were grizzly bear ($1,181 a pelt), polar bear ($1,083 a pelt) and tundra wolf ($211 a pelt).

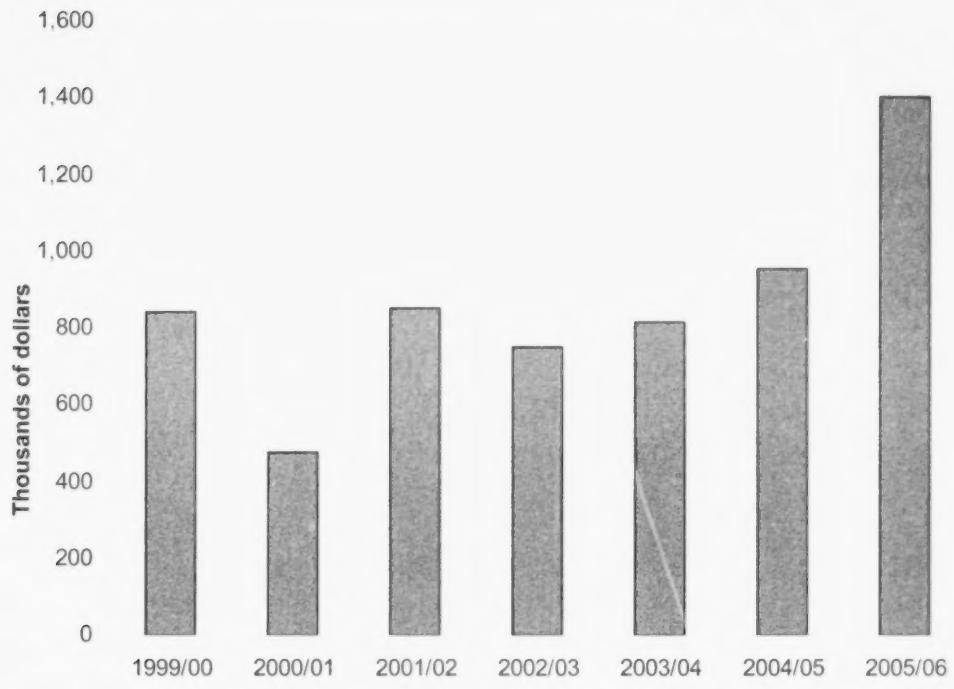
The least valuable pelts in fiscal 2006 were squirrel pelts with an average $2.64 per pelt. The squirrel pelt was also the least valuable pelt in fiscal 2005, averaging $1.08 a pelt.

Not one of the species with the most valuable pelts appears in the top three positions by total harvest value because the rarity of the animal limits the harvest and also increases the value of the pelt. Six grizzly bear pelts were harvested in fiscal 2006, compared to many thousands of marten and muskrat pelts.

In every year since at least fiscal 2003, marten and lynx were the greatest contributors by value to the total harvest, generating 73 per cent and 11 per cent, respectively, of total revenues. Third place in fiscal 2006 was beaver, at 4 per cent by value. In fact, most species contribute less than one per cent to the total harvest when measured in terms of the value of all pelts harvested.

The demand for NWT pelts hinges on trends in the unpredictable world of fashion, and therefore is beyond the control of local producers. On the supply side, the health of the northern ecosystem and sustainable harvesting practices among trappers, along with the willingness of trappers to ply their trade, are the chief determinants of the NWT's supply.

Total Value of NWT Pelts, Fiscal Years Ending June 30th



Source: GNWT Department of Industry, Tourism and Investment

FISCAL REVIEW

Over the period of the 15th Assembly, the Government of the Northwest Territories (GNWT) has focused its fiscal strategy on stabilizing its overall financial position and investing in key areas of government activity for the benefit of NWT residents. Operating surpluses are forecast for both 2006-07 and 2007-08 and the GNWT remains within the guidelines of the *Fiscal Responsibility Policy*.

Moody's Investors Service analyzed the GNWT's fiscal position and fiscal strategy, including the *Fiscal Responsibility Policy*, and considered the potential of the robust NWT economy before issuing their Aa3 credit rating for the GNWT in February 2005. Moody's upgraded the GNWT credit rating to Aa1 in November 2006.

2005-06 FINAL RESULTS

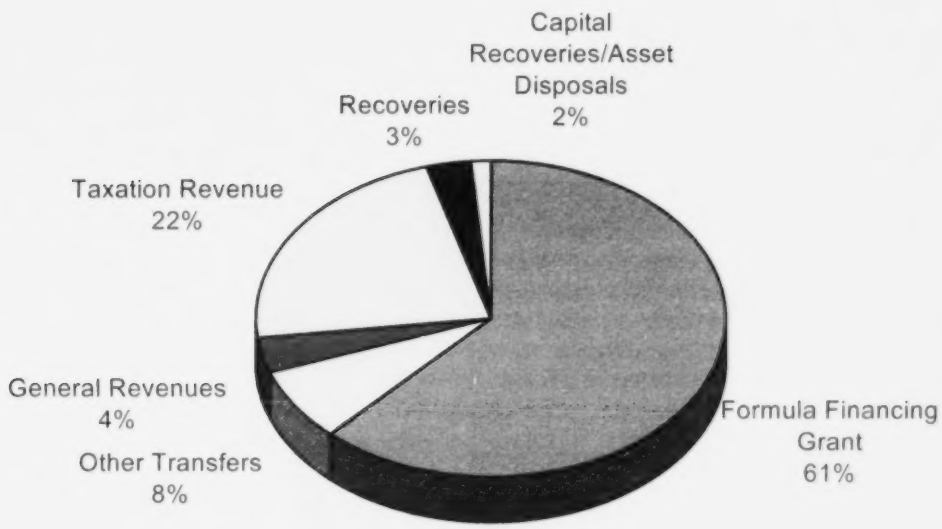
The operating surplus for 2005-06 was $38 million, $20 million higher than projected in the 2006-07 Budget. Changes in accounting policies that resulted in a $24 million increase in transfer payments combined with other revenue changes, yielded actual revenues that were $17 million higher than the 2005-06 Revised Estimates. Actual expenditures were $8 million lower than the 2005-06 Revised Estimates.

2006-07 REVISED ESTIMATES

The operating surplus for 2006-07 is projected to be $46 million after adjustments, $15 million higher than projected in the 2006-07 Main Estimates. Revenues have been revised upward by $79 million, due primarily to a $35 million increase in Corporate Income Tax revenue projections, a $20 million increase in transfer revenue estimates, a $10 million increase in Personal Income Tax revenues and a $9 million increase in investment income projections. Expenditure estimates are $60 million higher than budgeted in the 2006-07 Main Estimates, due mainly to a significant amount of infrastructure contribution carry-overs from the previous year.

A $290 million overpayment of Corporate Income Tax, received as part of the 2002 Corporate Income Tax remittances from Canada, must be repaid by the end of 2006-07. However, prudent financial management has reduced the amount the GNWT will need to borrow in order to repay this amount to $8 million. Total GNWT debt, including that of the NWT Power and Housing Corporations, is projected to be $151 million, $149 million under the federally-imposed debt limit of $300 million.

Total GNWT Revenues by Source
2007-08



2007-08 BUDGET

A $44 million operating surplus is projected for 2007-08, after accounting for estimated supplementary expenditure requirements and appropriation lapses.

The direct GNWT debt is forecast to be $50 million by the end of 2007-08. This debt, combined with the $139 million in guaranteed debt of the NWT Power Corporation, the NWT Energy Corporation and the NWT Housing Corporation, will bring the total GNWT debt subject to the $300 million authorized borrowing limit to $189 million.

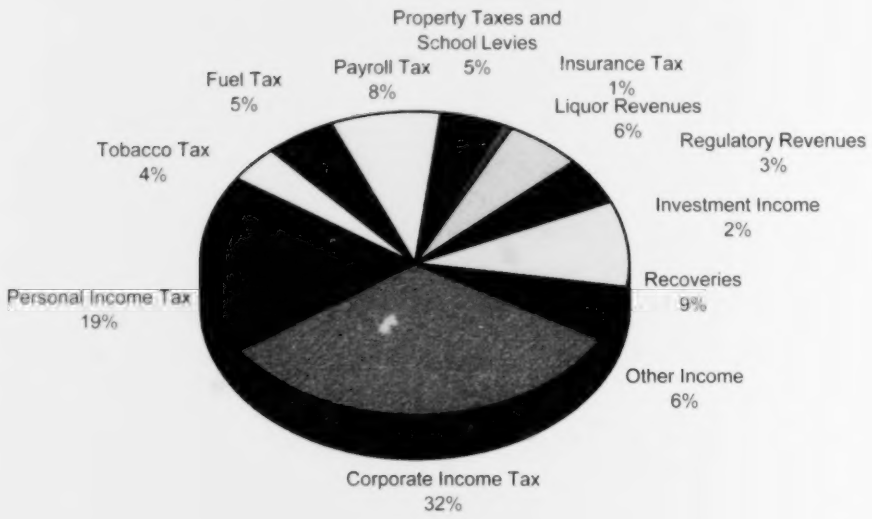
Revenues

Total 2007-08 revenues are forecast to increase to $1.23 billion, a 4.3 per cent increase from the 2006-07 Revised Estimates. This increase is driven primarily by growth in taxation revenues as the Formula Financing Grant, the GNWT's main source of revenue, is estimated to increase only 1 per cent, or $10 million, from the 2006-07 Revised Estimates.

In January 2007 the federal Minister of Finance established interim Territorial Formula Financing funding floors for the 2007-08 fiscal year. The floor amount for the NWT 2007-08 Grant will be $764 million.

New funding arrangements will not result in a 2007-08 Grant amount lower than the floor. However, no information has been provided about funding beyond 2007-08. The federal Minister has committed to provide proposals for long-term Territorial Formula Financing arrangements in the 2007 federal budget.

GNWT Own Source Revenues
2007-08



Other transfers, at $93 million, are 2 per cent lower than the 2006-07 Revised Estimates as a number of one-time transfers were recorded in 2006-07.

Taxation revenues are forecast to increase 25 per cent, or $56 million, from the 2006-07 Revised Estimates. The main reasons for the increase are:

- The Corporate Income Tax forecast is $39 million higher because forecasts of corporate income are higher.
- The Personal Income Tax revenue forecast is $16 million higher due to higher incomes earned in the NWT.
- The Payroll Tax revenue forecast is $0.8 million higher due to higher employment and employment income forecasts.
- All other taxation revenues (Tobacco Tax, Fuel Tax, Property Tax and School Levies, and Insurance Taxes) are forecast to increase $0.7 million in total.

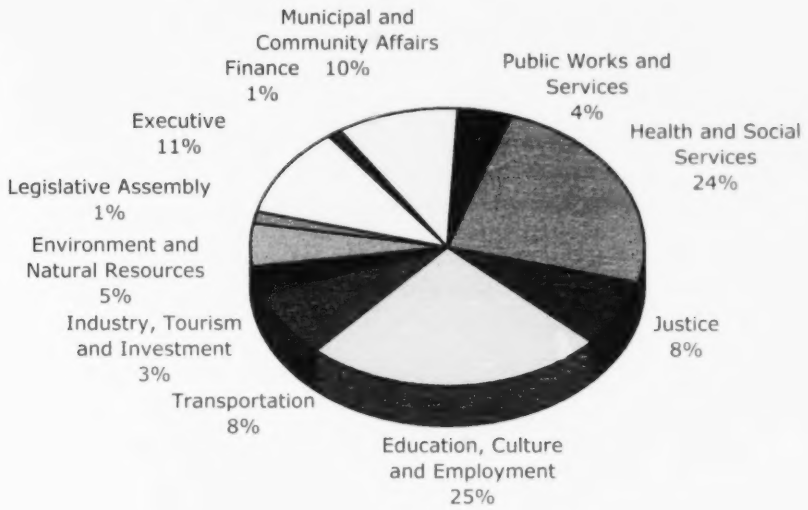
Other own source revenues are projected to decrease 12 per cent to $97 million in 2007-08, mainly due to a decrease in investment income.

Operating Expenditures

Total 2007-08 operating expenditures are budgeted to be $1.15 billion, $89 million higher than the 2006-07 Main Estimates but only $29 million higher than the 2006-07 Revised Estimates.

The 2007-08 Budget includes $38 million in funding for new initiatives and $55 million to address the increased costs of existing programs and services. The Budget offsets some of the new funding through $18 million in cost savings and program reductions.

Operations Expenditures by Department
2007-08



Since 1999-00, total expenditures have increased an average of 6 per cent annually. Spending on social programs (education, health, social services, justice, and housing) has increased an average of 6.3 per cent per year compared to 5.2 per cent for other programs over the same period.

The $38 million in funding for new initiatives includes:

Investing in Education

- $2.2 million to decrease the Pupil/Teacher Ratio in physical education programs
- $1.8 million to decrease the Pupil/Teacher Ratio in trades related programs
- $962,000 to complete the implementation of full-time kindergarten
- $1 million to implement a revised childcare user subsidy
- $2.1 million for Aboriginal and second language instruction programs
- $175,000 to enhance literacy programs and supports
- $2.9 million to increase the level of student support funding from 17 per cent of the total school budget to 19 per cent

Investing in Health and Social Services

- $360,000 for the Aboriginal Wellness Program to incorporate traditional healing practices into acute and primary community care programs
- $137,000 for the *First Nations and Inuit Tobacco Strategy* to continue work to reduce the use of tobacco
- $1.3 million for increased costs for physician and hospital services

Justice

- $428,000 to establish the Sachs Harbour RCMP detachment
- $688,000 for community justice committees

Social Program Department Collaboration

- $695,000 to combat homelessness
- $180,000 for the continuation of the *Healthy Choices Framework*
- $262,000 for a pan-territorial sports strategy

Housing

- $18 million to construct new affordable housing units

Governance

- $150,000 to fund community energy planning committees that will evaluate options for reducing energy costs and environmental impacts (component of the *Integrated Community Sustainability Plan*)

Economic Activity

- $458,000 for the Harvester Assistance program
- $320,000 to hire new apprentices in designated trades
- $2.5 million to inspect and repair wood piles supporting GNWT buildings

Environment

- $500,000 to complete baseline biophysical studies in the western NWT
- $500,000 for the *NWT Barren-ground Caribou Management Strategy*

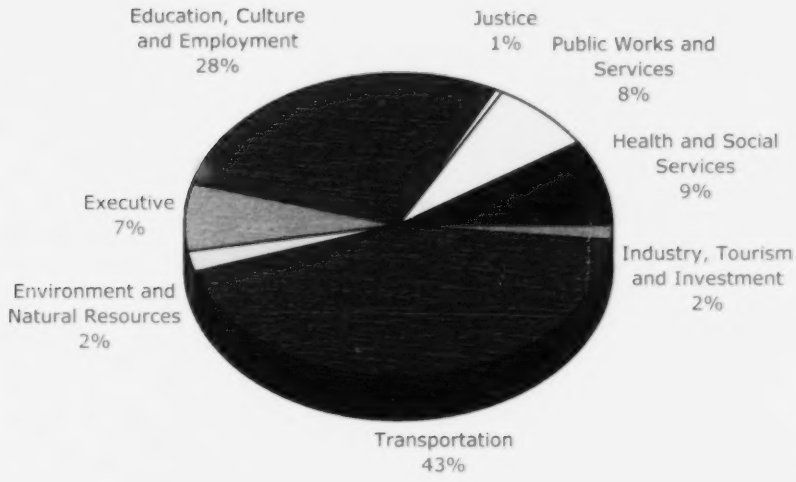
Infrastructure Investment Expenditures

Total infrastructure investment expenditures for 2007-08 are budgeted to be $151 million. This includes $109 million in direct investment in capital assets and $42 million for infrastructure contributions (included in departmental operating expenditures). The infrastructure contributions are mainly for community and regional operations.

The major direct infrastructure investments included in the *2007-08 Infrastructure Acquisition Plan* are:

- $23.9 million for school construction in Tulita, Gameti, N'Dilo and Yellowknife and other school renovations, for a total of $141 million in direct investments over the 5 year time period of the *Infrastructure Acquisition Plan*;
- $9 million for airport improvements, including $4.3 million for runway enhancements, $4.3 million for buildings and $0.4 million for airport equipment;

Direct Investment in Capital Assets by Department
2007-08



- $37.1 million for various highway programs, including $13 million for the Mackenzie Valley Winter Road bridge program, $11.5 million for highways, $5.4 million for other bridges, $6.2 million for truck pull-outs, access roads and chipseal programs, and $1 million for various equipment upgrades;
- $1.8 million for upgrades and building repairs in various territorial parks and $0.7 million for wildlife laboratory and equipment upgrades;
- $6.3 million for tank farm code upgrades and capacity increases;
- $1.1 million for forest management infrastructure including improvements to the North Slave heliport;
- $9.9 million for renovations to hospital units, medical equipment and health record management upgrades, for a total of $98.2 million over the period of the *Plan*; and
- $5.8 million for the Deh Cho Complex and Hall in Fort Simpson.

MEDIUM-TERM OUTLOOK

The medium term outlook is uncertain given that Territorial Formula Financing arrangements after 2006-07 are unknown and negotiations for the devolution of NWT resources, including an equitable resource revenue sharing agreement, have not been concluded. The federal government has yet to act on the recommendations of the federally appointed Expert Panel on Equalization and Territorial Formula Financing. Until decisions are made, projections of Territorial Formula Financing amounts are based on modified previous arrangements. Devolution and the corresponding resource revenue

sharing discussions are on-going but have not been included in the medium-term outlook.

As a result of this uncertainty, the GNWT medium-term revenue forecasts are conservative. Revenues are forecast to decrease 2.5 per cent in 2008-09 and increase 2.3 per cent in 2009-10. Expenditures are held to a 4 per cent increase in 2008-09 and 3.8 per cent in 2009-10, with operating deficits in both years. However, despite these forecast deficits, the GNWT will remain within the guidelines of the *Fiscal Responsibility Policy*.

Risks to Revenue Forecasts

Territorial Formula Financing arrangements after 2006-07 have not been determined although the federal government has committed to a floor amount for the 2007-08 Grant and also to strengthening Territorial Formula Financing arrangements in the 2007-08 federal budget. New Territorial Formula Financing arrangements are expected to be responsive to changes in GNWT own-source revenues. Since the Territorial Formula Financing arrangements represent over 60 per cent of total GNWT revenues, their responsiveness to changes in the GNWT's fiscal circumstances is crucial to overall revenue stability. A further 8 per cent of GNWT revenues are composed of other federal transfers, which do not vary significantly. However, own source revenues, which represent about 30 per cent of total revenues, are subject to differing degrees of variability. Corporate Income Tax in particular can fluctuate significantly.

Fiscal Framework Operations Summary
(millions of dollars)

	2005-06 Actuals	2006-07 Revised Estimates	2007-08 Main Estimates	2008-09 Forecast	2009-10 Forecast
Revenues	1,101	1,180	1,231	1,200	1,227
Expenditures	(1,065)	(1,134)	(1,187)	(1,209)	(1,255)
Operating Surplus (Deficit)	36	46	44	(9)	(28)
Capital Investment Requirements	106	111	109	95	172
Accumulated Cash Surplus (Deficit)	347	(8)	(50)	(184)	(264)
Total Debt	(149)	(150)	(189)	(328)	(393)
Available Borrowing Authority	151	150	111	(28)	(93)

GNWT'S FISCAL STRATEGY

The GNWT's fiscal strategy is to create a financial environment that will ensure adequate resources to support programs and service delivery on a sustainable basis. The GNWT has taken an active role both in the North and on the national stage to promote the unique needs of the NWT.

The cornerstone of the GNWT fiscal strategy is the *Fiscal Responsibility Policy*, which was developed to provide a coordinated approach to responsible spending, borrowing and debt repayment, including guidelines for debt and deficit limits and accountability

measures. Under this Policy, the GNWT will only borrow for infrastructure investments, self-liquidating investments, and repayable loan programs. The GNWT will not borrow for operating purposes. A minimum of 50 per cent of infrastructure investment will be financed through cash generated from operating surpluses. Therefore, only half of the GNWT infrastructure investment can be financed through short or long-term debt.

The 15th Assembly has practiced prudent financial management. Over the 2004-05 to 2007-08 period, $107 million in additional funding has been invested in new initiatives with an additional $162 million allocated to address increased costs of existing programs and services. However, expenditure reductions and cost savings of $82 million were also implemented. From 2004-05 to the end of 2007-08, the GNWT will have invested $406 million in capital projects.

As part of its fiscal strategy, the GNWT is consulting with NWT residents to develop a macroeconomic blueprint to identify both the economic goals that residents want to achieve and the investments that should be made to achieve these goals.

The GNWT cannot make the necessary investments, nor maintain its fiscal strategy, without federal co-operation in strengthening Territorial Formula Financing, increasing the authorized borrowing limit, and finalizing devolution of NWT natural resources and associated revenues to NWT governments.

Changes to Federal/Territorial Fiscal Arrangements

Territorial Formula Financing was changed dramatically in 2004, from separate, 5-year, formula-based agreements to a New Framework of a fixed total amount for all three territories set in federal legislation, escalated by 3.5 per cent annually after 2005-06. The total amounts for 2004-05 and 2005-06 were allocated based on each territory's average of previous Territorial Formula Financing shares; this was later extended to 2006-07. An Expert Panel on Equalization and Territorial Formula Financing was created to recommend allocation formulas for the total amounts of both Equalization and Territorial Formula Financing after 2005-06.

Since the introduction of this New Framework for Territorial Formula Financing, the GNWT has worked extensively with the federal government, the Expert Panel on Equalization and Territorial Formula Financing, the Council of the Federation Advisory Panel on Fiscal Imbalance and the Governments of the Yukon and Nunavut to make its concerns with the New Framework known and to work to a favourable solution. In 2006 the Panels released their reports, both supporting the joint territorial position, in particular that Territorial Formula Financing arrangements should return to principle-based arrangements, that the arrangements for each territory must be determined separately from those of the other territories, that the arrangements must be adequate and that fiscal arrangements should provide the territories with incentives to develop their economies and raise their own revenues.

In his *November 2006 Economic and Fiscal Update*, the federal Minister committed to strengthening Territorial Formula Financing and to announcing changes in the 2007 federal budget.

Changes to the Federally Imposed $300 Million Borrowing Limit

Under the *Northwest Territories Act*, the GNWT requires federal government approval to borrow. The current authority allows the GNWT, including the Northwest Territories Power Corporation and Northwest Territories Housing Corporation, to incur debt up to a maximum of $300 million. In 2006 the GNWT requested that Canada replace this limit with one tied to the GNWT's capacity to borrow.

The GNWT argued that the existing limit is too restrictive. Fully half of the limit is currently taken up by the guaranteed debt of the NWT Power Corporation, the NWT Energy Corporation and the NWT Housing Corporation and leaves little room for the expansion of other activities. As well, the GNWT has demonstrated prudent fiscal management and has adopted a *Fiscal Responsibility Policy* that sets clear guidelines and a responsible definition for acceptable borrowing limits. Furthermore, Moody's Investors Service, after analyzing the GNWT's fiscal position and fiscal strategy, including the *Fiscal Responsibility Policy*, and considering the potential of the robust NWT economy, issued their Aa3 credit rating for the GNWT in 2005. Moody's upgraded the GNWT credit rating to Aa1 on November 14, 2006.

The federal Minister of Finance has provided a favourable response to the GNWT request and plans to seek approval for an increase in the borrowing limit. The GNWT will continue to work with the federal government on this issue.

Devolution and Resource Revenue Sharing

The NWT's resource wealth is substantial. With proven and potential reserves of 75 tcf of natural gas, 12 billion barrels of oil, diamonds, and other minerals, it is not surprising that resource development has been the prime economic driver since 1999, and will likely continue to be in the foreseeable future. However, under current fiscal arrangements, governments in the NWT see little benefit from this development. Royalties (over $ 1.1 billion from 1999-00 to 2005-06) accrue to the federal government. Although some tax revenue is generated, this has been limited, and much has been clawed-back through lower Territorial Formula Financing payments.

The devolution of the responsibility for non-renewable resources, along with a fair share of the associated revenues, continues to be a priority of the GNWT. The GNWT, together with Aboriginal governments, is discussing with the federal government a resource devolution agreement that includes a fair resource revenue sharing agreement, makes NWT residents the primary beneficiaries of the development of NWT resources, and allows the governments in the NWT to invest in the NWT's economic future.

The NWT needs investment if the NWT economy is to be developed to its fullest potential. However, devolution discussions have been progressing slowly. As recently as August 2006, the Prime Minister, in a visit to Yellowknife, stated that the North should be the "primary beneficiary" of northern resource development. However, agreement has yet to be reached on how this is to be achieved.

The federal government provides a large proportion of GNWT revenues through Territorial Formula Financing and it will be some time before the GNWT's dependency on this transfer is lessened. The dependency will not be reduced unless significant investments are made in the NWT's people, its infrastructure and its communities. These

investments cannot be made unless governments in the NWT achieve a significant net fiscal benefit from the revenues generated by the development of the NWT's non-renewable resources.

Territorial Formula Financing arrangements are meant to provide the GNWT with the fiscal resources to deliver public services at a level comparable with the provinces while recognizing the unique circumstances, including higher costs, in the North. The focus of Territorial Formula Financing is to measure the fiscal gap between what is needed to fund existing programs and services and what the GNWT can raise from its own sources. In fact, the main variables used to determine the expenditure side of the Grant (population and provincial-local government spending), are not linked to resource development. On the revenue side of the Grant, increases in tax revenues have been limited, and those that have occurred have been offset by a lower Grant. In short, Territorial Formula Financing arrangements were never designed to address the NWT's huge infrastructure gap, nor the particular stresses created by resource development.

A recent paper has concluded that "It is in the national and regional public interest that northern resource royalties be committed to developing sustainable northern economies and strong and healthy Aboriginal and northern communities."[1]

The NWT cannot make the investments needed to expand the NWT economy within existing funding arrangements, which is why access to a fair resource revenue sharing agreement is critical. These investments would also benefit the rest of Canada by opening up new areas for development and would help diversify the NWT economy and improve the quality of life for NWT residents through better access to services, increased mobility and lower cost of living.

[1] Banta, Russell. "The Resource Curse and the Mackenzie Gas Project", *Policy Options*, December 2006-January 2007: 80-86.

Summary of Operations

(thousands of dollars)

	2007/2008 Main Estimates	2006/2007 Revised Estimates	2006/2007 Main Estimates	2005/2006 Actuals
REVENUES	**1,231,136**	**1,180,625**	**1,101,557**	**1,100,960**
OPERATIONS EXPENSE				
Compensation and Benefits	230,508	221,251	217,038	203,836
Grants and Contributions	570,061	559,689	511,690	507,043
Other Expenses	297,931	293,024	283,425	304,896
Amortization	54,050	49,418	51,670	47,450
TOTAL OPERATIONS EXPENSE TO BE VOTED	**1,152,550**	**1,123,382**	**1,063,823**	**1,063,225**
OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS	**78,586**	**57,243**	**37,734**	**37,735**
ESTIMATED SUPPLEMENTARY REQUIREMENTS				
Operations Expenditures – Regular	(25,000)	(25,000)	(15,000)	-
Operations Expenditures – Other	(25,000)	-	-	-
ESTIMATED APPROPRIATION LAPSES				
Infrastructure Contributions	8,000	8,000	-	-
Regular Operating Activities	8,000	6,000	8,000	-
WORK PERFORMED ON BEHALF OF OTHERS				
Recoveries	40,332	50,206	35,659	44,438
Expenditures	(40,332)	(50,206)	(35,659)	(44,438)
OPERATING SURPLUS (DEFICIT) FOR THE YEAR	**44,586**	**46,243**	**30,734**	**37,735**
ACCUMULATED SURPLUS AT THE BEGINNING OF THE YEAR	**762,296**	**716,053**	**738,877**	**678,318**
ACCUMULATED SURPLUS AT THE END OF THE YEAR	**806,882**	**762,296**	**769,611**	**716,053**

Summary of Revenues

(thousands of dollars)

	2007/2008 Main Estimates	2006/2007 Revised Estimates	2006/2007 Main Estimates	2005/2006 Actuals
GRANT FROM CANADA	**763,522**	**753,414**	**751,774**	**727,530**
TRANSFER PAYMENTS	**93,101**	**95,182**	**75,658**	**134,733**
TAXATION REVENUE				
Personal Income Tax	72,395	56,560	46,829	41,004
Corporate Income Tax	119,141	80,430	45,178	16,983
Tobacco Tax	14,295	14,043	14,462	13,901
Fuel Tax	19,092	18,883	19,894	19,481
Payroll Tax	31,171	30,340	28,340	28,333
Property Tax and School Levies	17,864	17,720	15,249	14,760
Insurance Taxes	3,300	3,203	2,800	3,219
	277,258	**221,179**	**172,752**	**137,681**
GENERAL REVENUES				
Revolving Funds Net Revenue	21,561	20,923	20,923	20,201
Regulatory Revenues	12,411	12,055	12,396	12,388
Investment Income	6,848	18,606	10,106	14,647
Other General Revenues	3,339	3,491	3,230	2,023
	44,159	**55,075**	**46,655**	**49,259**
OTHER RECOVERIES				
Lease and Accommodations	238	272	1,175	1,584
Service	1,847	1,692	1,805	1,675
Program	28,552	31,683	30,530	27,581
Commodity Sales	88	98	48	26
Insurance Proceeds	60	60	60	1,393
Other Miscellaneous Recoveries	144	194	90	103
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	5,318
	33,929	**36,999**	**36,708**	**37,680**
GRANTS IN KIND	**533**	**597**	**582**	**627**
CAPITAL				
Other	5,459	5,119	5,215	-
Deferred Capital Contributions	13,175	13,060	12,213	13,450
	18,634	**18,179**	**17,428**	**13,450**
TOTAL REVENUES	**1,231,136**	**1,180,625**	**1,101,557**	**1,100,960**

Summary of Operations Expenditures By Department

(thousands of dollars)

	2007/2008 Main Estimates	2006/2007 Revised Estimates	2006/2007 Main Estimates	2005/2006 Actuals
Legislative Assembly	16,294	14,542	14,536	8,392
Executive	122,038	124,311	104,873	102,942
Finance	11,461	7,959	7,953	6,424
Municipal and Community Affairs	114,656	124,261	105,512	127,402
Public Works and Services	51,800	50,483	47,140	45,717
Health and Social Services	277,395	267,273	265,186	262,016
Justice	88,441	86,206	83,800	81,580
Education, Culture and Employment	286,150	269,326	259,205	257,577
Transportation	88,302	82,607	82,973	80,853
Industry, Tourism and Investment	38,869	39,257	37,934	34,591
Environment and Natural Resources	57,144	57,157	54,711	55,731
TOTAL OPERATIONS EXPENDITURES	**1,152,550**	**1,123,382**	**1,063,823**	**1,063,225**

Summary of Capital Investment Expenditures by Department

(thousands of dollars)

	2007/2008 Main Estimates	2006/2007 Revised Estimates	2006/2007 Main Estimates	2005/2006 Actuals
Legislative Assembly	-	110	110	-
Executive	7,717	2,501	1,000	512
Finance	-	-	-	-
Municipal and Community Affairs	-	7,041	2,610	11,012
Public Works and Services	8,389	17,215	9,253	4,011
Health and Social Services	10,109	20,179	13,101	5,177
Justice	618	5,588	4,029	987
Education, Culture and Employment	30,565	40,029	28,382	11,960
Transportation	47,043	52,197	46,325	55,098
Industry, Tourism and Investment	1,810	3,402	2,783	1,136
Environment and Natural Resources	2,378	21,421	3,027	1,596
TOTAL CAPITAL INVESTMENT EXPENDITURES	**108,629**	**169,683**	**110,620**	**91,489**

Summary of Changes in Capital Assets and Amortization

(thousands of dollars)

	2007/2008 Main Estimates	2006/2007 Revised Estimates	2006/2007 Main Estimates	2005/2006 Actuals
BEGINNING OF THE YEAR				
Cost of Capital Assets in Service	1,620,590	1,527,195	1,556,044	1,490,390
Accumulated Depreciation	(630,373)	(580,955)	(585,096)	(533,505)
Net Book Value	990,217	946,240	970,948	956,885
CHANGES DURING THE YEAR				
Capital Assets Put into Service	104,393	101,479	111,502	48,415
Disposals	-	(8,084)	-	(11,610)
Amortization	(54,050)	(49,418)	(51,670)	(47,450)
NET BOOK VALUE OF CAPITAL ASSETS IN SERVICE AT THE END OF THE YEAR	**1,040,560**	**990,217**	**1,030,780**	**946,240**
Work in Progress on Multi-year Projects	154,289	142,053	105,731	100,849
TOTAL NET BOOK VALUE AND WORK IN PROGRESS	**1,194,849**	**1,132,270**	**1,136,511**	**1,047,089**
CALCULATION OF CAPITAL INVESTMENT				
Capital Investment per Infrastructure Acquisition Plan	108,629	169,683	110,620	91,489
Supplementary Reserve	12,000	7,000	12,000	-
Carry-over of Appropriations from the Previous Year	30,000	-	26,000	-
Estimated Appropriations for Incomplete Projects Continued in Subsequent Year	(30,000)	(30,000)	(26,000)	-
Estimated Appropriation Lapses	(4,000)	(4,000)	(4,000)	-
Capital Investment Expenditures	**116,629**	**142,683**	**118,620**	**91,489**
CALCULATION OF ASSETS PUT INTO SERVICE				
Work in progress, beginning of the year	142,053	100,849	98,613	57,775
Capital Investment Expenditures	116,629	142,683	118,620	91,489
Less work in progress, end of the year	(154,289)	(142,053)	(105,731)	(100,849)
Assets put into service	**104,393**	**101,479**	**111,502**	**48,415**

Summary of Cash Flows

(thousands of dollars)

	2007/2008 Main Estimates	2006/2007 Revised Estimates	2006/2007 Main Estimates	2005/2006 Actuals
OPERATING TRANSACTIONS				
Cash Received From:				
Canada	993,794	896,679	881,439	1,068,033
Other Revenues	225,530	231,562	204,332	304,820
	1,219,324	**1,128,241**	**1,085,771**	**1,372,853**
Cash Paid For:				
Operations Expenses	(1,130,631)	(1,083,065)	(1,024,959)	(1,024,995)
Projects Performed for Others	-	-	-	(171,114)
Cash Provided By (Used For) Operating Transactions	**88,693**	**45,176**	**60,812**	**176,744**
CAPITAL TRANSACTIONS				
Capital Investment (current year)	(111,742)	(118,705)	(113,150)	(88,435)
Capital Investment (prior year)	(5,978)	(3,833)	(4,936)	-
Proceeds from Disposal of Capital Assets	-	-	-	8,057
Capital Contributions Received and Deferred	18,785	19,694	19,694	23,168
Cash Provided By (Used For) Capital Transactions	**(98,936)**	**(102,844)**	**(98,392)**	**(57,210)**
INVESTING TRANSACTIONS				
Designated Cash and Investments Purchased	-	-	-	(124)
Loans (Net of Repayments)	(3,800)	(3,800)	(4,450)	3,304
Cash Provided By (Used For) Investing Transactions	**(3,800)**	**(3,800)**	**(4,450)**	**3,180**
FINANCING TRANSACTIONS				
Repayment of Capital Lease Obligations	**(2,641)**	**(2,641)**	**(2,641)**	**(1,273)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(16,684)**	**(64,109)**	**(44,671)**	**121,441**
Repayment of Corporate Income Tax Overpayment	(25,929)	(290,424)	(290,457)	(29,298)
Cash and Cash Equivalents at the Beginning of the Year	(7,836)	346,697	256,837	254,554
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**(50,449)**	**(7,836)**	**(78,291)**	**346,697**

Summary of Total Debt and Estimated Borrowing Capacity

(thousands of dollars)

	2007/2008 Main Estimates	2006/2007 Revised Estimates	2006/2007 Main Estimates	2005/2006 Actuals
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**(50,449)**	**(7,836)**	**(78,291)**	**346,697**
GUARANTEED DEBT				
NWT Power Corporation	(89,728)	(92,279)	(94,670)	(96,532)
NWT Energy Corporation	(21,775)	(22,212)	(22,212)	(22,618)
NWT Housing Corporation	(27,316)	(28,178)	(28,155)	(28,984)
TOTAL GUARANTEED DEBT	**(138,819)**	**(142,669)**	**(145,037)**	**(148,134)**
TOTAL (DEBT) SURPLUS	**(189,268)**	**(150,505)**	**(223,328)**	**(148,134)**
AUTHORIZED BORROWING LIMIT	**300,000**	**300,000**	**300,000**	**300,000**
AVAILABLE BORROWING CAPACITY	**110,732**	**149,495**	**76,672**	**151,866**

Provincial and Territorial Tax Rates at January 18, 2007

	Combined Top Marginal PIT rate [a] (%)	Retail Sales Tax (%)	Fuel Tax [b] Gas (¢/litre)	Fuel Tax [b] Diesel (¢/litre)	Tobacco Tax on Cigarettes ($/carton) [c]	Payroll Tax [d] (%)	Corporate Income Tax Small (%)	Corporate Income Tax Large (%)	Capital Tax [e] (%)
Northwest Territories	43.05	-	10.7	9.1	42.00	2.00	4.0	11.5	-
Nunavut	40.50	-	6.4	9.1	42.00	2.00	4.0	12.0	-
Yukon	43.04	-	6.2	7.2	26.40	-	4.0	15.0	-
British Columbia	43.70	7.0	14.5	15.0	35.80	-	4.5	12.0	0/3.0
Alberta	39.00	-	9.0	9.0	32.00	-	3.0	10.0	-
Saskatchewan	44.00	5.0	15.0	15.0	36.60	-	4.5	13.0	0.3/3.25
Manitoba	46.40	7.0	11.5	11.5	35.00	2.15	3.0	14.0	0.3/3.0
Ontario	46.41	8.0	14.7	14.3	24.70	1.95	5.5	14.0	0.285/0.855
Quebec	48.22	7.5	15.2	16.2	20.60	4.26	8.0	9.9	0.49/0.98
New Brunswick	46.84	8.0	14.5	16.9	23.50	-	1.0	12.0	0.2/3.0
Nova Scotia	48.25	8.0	15.5	15.4	31.04	-	5.0	16.0	0.25/4.0
Prince Edward Island	47.37	10.0	20.4	20.0	34.90	-	5.4	16.0	0/5.0
Newfoundland	48.64	8.0	16.5	16.5	36.00	2.00	5.0	14.0	0/4.0
Weighted average [f]	45.75	6.8	14.2	14.4	27.09	1.88	5.5	12.4	

Notes:

(a) Combined federal-provincial/territorial highest personal income tax rates in effect for the 2006 tax year.

(b) Quebec, New Brunswick, Nova Scotia and Newfoundland apply sales tax to fuel. The NWT's off-highway gasoline tax rate is 6.4 cents/litre.

(c) Saskatchewan, Manitoba, New Brunswick, Nova Scotia and Newfoundland apply sales tax to tobacco products.

(d) The NWT and Nunavut levy payroll taxes on employees. Other provinces that levy payroll taxes provide exemptions for small business and/or the rates vary depending on the payroll size.

(e) Capital tax rates are for large corporations and for financial institutions in the order shown. The tax bases are different for different types of companies.

(f) Average weighted by provincial/territorial populations at July 1, 2006.